(Free translation from the original in Spanish)

BANCO DE LA NACION

FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Gaveglio, Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú, T: +51 (1) 211 6500 F: +51 (1) 211 6565
www.pwc.com/pe

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BANCO DE LA NACION

FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

CONTENTS

S/. = Nuevos Soles
US$ = United States dollar

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Banco de la Nación

February 24, 2014

We have audited the accompanying financial statements of **Banco de la Nación** which comprise the statement of financial position as of December 31, 2013 and the statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Peru applicable to financial institutions, and such internal control as Management determines is necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Gaveglio, Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
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February 24, 2014
Banco de la Nación

Opinion

In our opinion, the accompanying financial statements referred to above, present fairly, in all material respects, the financial position of **Banco de la Nación** as of December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Peru applicable to financial institutions.

Other matters

The financial statements as of December 31, 2012 were audited by other independent auditors, who issued an unqualified opinion in their report dated March 11, 2013.

Gaveglio, Aparicio y Asociados

Countersigned by

---(partner)
Arnaldo Alvarado L.
Peruvian Certified Public Accountant
Registration No.01-007576

(Free translation from the original in Spanish)

BANCO DE LA NACIÓN

STATEMENT OF FINANCIAL POSITION

ASSETS

	Notes	As of December 31 2013 S/.000	2012 S/.000
Available:	5		
- Cash-in hand		987,245	1,134,631
- Peruvian Central Reserve Bank		11,172,712	11,274,908
- Banks and other entities in the country's financial system		14,684	20,842
- Banks and other foreign financial institutions		103,364	242,612
- Clearing		34,650	44,170
- Interestsaccrued on cash in-hand and and other cash		635	538
		12,313,290	12,717,701
Available-for-sale and held-to-maturity financial assets	6	6,684,784	4,938,599
Loan portfolio, net	7	6,943,890	5,587,425
Receivables, net	8	382,988	283,240
Property, furniture and equipment, net	9	290,562	296,964
Deferred income tax	25	113,123	64,352
Otros assets, net	10	291,660	128,696
TOTAL ASSETS		27,020,297	24,016,977
OFF-BALANCE SHEET AND CONTINGENT ACCOUNTS	18		
Contingent debtors		4,080,922	1,790,501
Off-balance sheet accounts - debtors		67,835,679	64,933,521
Trusts and comissions on trust and trust comissions, debt		1,252,887	1,248,952
		73,169,488	67,972,974

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	As of December 31 2013 S/.000	2012 S/.000
LIABILITIES			
Borrowings with the public	11	24,303,439	21,088,388
Deposits in financial system companies and and international financial entities	12	358,315	382,940
Payables	13	230,828	252,355
Provisions	14	128,814	102,271
Other liabilities	15	207,143	128,191
TOTAL LIABILITIES		25,228,539	21,954,145
EQUITY	16		
Share capital		1,000,000	1,000,000
Additional capital		1,452	952
Legal reserve		350,000	350,000
Unrealized results		(140,848)	43,076
Retained earnings		581,154	668,804
TOTAL EQUITY		1,791,758	2,062,832
TOTAL LIABILITIES AND EQUITY		27,020,297	24,016,977
OFF-BALANCE SHEET AND CONTINGENT ACCOUNTS	18		
Contingent debtors		4,080,922	1,790,501
Off-balance sheet accounts - debtors		67,835,679	64,933,521
Trusts and comissions on trust and trust comissions, debt		1,252,887	1,248,952
		73,169,488	67,972,974

The accompanying notes from page 7 to 55 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACIÓN

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended December 31, 2013 S/.000	2012 S/.000
INTEREST INCOME			
Cash in hand		234,275	316,536
Available-for-sale financial assets		174,397	87,057
Held-to-maturity financial assets		98,490	111,117
Direct loan portfolio		609,586	552,233
		1,116,748	1,066,943
INTEREST EXPENSES			
Borrowings with the public		(39,591)	(51,534)
Deposits in financial system companies and international financial organizations		(5)	(8)
		(39,596)	(51,542)
Gross financial margin		1,077,152	1,015,401
Provisions for uncollectible direct loans	7-d)	(28,699)	(22,449)
Income from decrease of provisions		4,160	1,445
		(24,539)	(21,004)
Net financial margin		1,052,613	994,397
INCOME FROM FINANCIAL SERVICES	19-a)		
Income from indirect loans		4,596	3,480
Income from trust and trust commissions		3,099	2,849
Other income		619,563	591,774
		627,258	598,103
FINANCIAL SERVICE EXPENSES	19-b)		
Expenses for indirect loans		(2)	(3)
Expenses from trust and trust commissions		(6)	(7)
Other expenses		(82,276)	(69,723)
		(82,284)	(69,733)
Net financial margin for income and expenses for financial services		1,597,587	1,522,767
Result of financial operations			
Available-for-sale financial assets		62	31,078
Net exchange gain		49,427	55,056
Other		5,477	9
		54,966	86,143
Operative margin		1,652,553	1,608,910
ADMINISTRATIVE EXPENSES			
Personnel and board expenses	20	(536,014)	(532,955)
Expenses for third-party services	21	(242,870)	(208,680)
Taxes and contributions		(67,854)	(41,217)
		(846,738)	(782,852)
DEPRECIATION AND AMORTIZATION	22	(47,373)	(47,746)
Net operating margin, net		758,442	778,312
VALUATION OF ASSETS AND PROVISIONS	22		
Provision for indirect loans		(6,402)	(3,279)
Recovery of provisions (Provisions) for uncollectible receivables		9,148	(11,305)
Impairment of financial assets		(716)	(427)
Recovery of impairment of fixed assets		501	-
Provision for litigation and claims		(43,816)	(17,843)
Other provisions		(176)	(122)
		(41,461)	(32,976)
Operating profit		716,981	745,336
OTHER INCOME AND EXPENSES	23	8,046	87,784
Results of the period before income tax		725,027	833,120
Income tax	24-f)	(135,680)	(166,300)
Net result for the period		589,347	666,820
Other comprehensive income:			
Unrealized results for available-for-sale financial assets		(183,924)	38,619
Total comprehensive income for the year		405,423	705,439

The accompanying notes from page 7 to 55 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACION

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Share capital (note 16(a)) S/.000	Additional capital S/.000	Legal reserve (note 16(b)) S/.000	Unrealized results S/.000	Retained earnings (note 16(c)) S/.000	Total net equity S/.000
Balances as of January 1, 2012	1,000,000	677	350,000	4,457	486,715	1,841,849
Unrealized results in available-for-sale financial assets	-	-	-	38,619	-	38,619
Net results of the period	-	-	-	-	666,820	666,820
Total comprehensive income for the year	-	-	-	38,619	666,820	705,439
Other prior year adjustments	-	-	-	-	(5,446)	(5,446)
Donations	-	275	-	-	-	275
Distributions to the Public Treasury	-	-	-	-	(335,499)	(335,499)
Offsetting debt with Public Treasury	-	-	-	-	(143,786)	(143,786)
Total transactions with shareholders	-	275	-	-	(484,731)	(484,456)
Balances as of December 31, 2012	1,000,000	952	350,000	43,076	668,804	2,062,832
Balances as of January 1, 2013	1,000,000	952	350,000	43,076	668,804	2,062,832
Unrealized results in available-for-sale financial assets	-	-	-	(183,924)	-	(183,924)
Net results of the period	-	-	-	-	589,347	589,347
Total comprehensive income for the year	-	-	-	(183,924)	589,347	405,423
Other prior year adjustments	-	-	-	-	81	81
Donations	-	500	-	-	-	500
Distributions to the Public Treasury	-	-	-	-	(473,955)	(473,955)
Offsetting debt with Public Treasury	-	-	-	-	(203,123)	(203,123)
Total transactions with shareholders	-	500	-	-	(676,997)	(676,497)
Balances as of December 31, 2012	1,000,000	1,452	350,000	(140,848)	581,154	1,791,758

The accompanying notes from page 7 to 55 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACIÓN

STATEMENT OF CASH FLOWS

	For the years ended December 31,	
	2013	2012
	S/.000	S/.000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net result of the period	589,347	666,820
Adjustments to reconcile the net result of the period with cash flows from operating activities:		
-Depreciation and amortization	47,373	47,746
-Provision for uncollectible direct loans	28,699	22,449
-Return of provisions	(16,798)	(20,121)
-Provision for receivables	4,982	14,220
-Provision for litigations and contingent loans	50,218	22,085
-Deferred income tax	(19,088)	5,560
-Other changes in fixed assets	1,395	13,751
-Interests accrued on available-for-sale and held-to-maturity financial assets	(81,922)	(38,978)
-Accounting improvement	-	2,505
Charges and credits for net changes in assets and liabilities:		
-Receivables and other assets	(237,662)	56,432
-Payables and other liabilities	33,750	(76,455)
-Equity adjustments	81	(5,446)
Cash and cash equivalent provided by operating activities	400,375	710,568
CASH FLOWS FROM INVESTING ACTIVITIES		
-Acquisition of property, furniture and equipment	(33,173)	(45,769)
-Acquisition of other non-financial assets	(26,086)	(9,791)
Cash and cash equivalent applied to investing activities	(59,259)	(55,560)
CASH FLOWS FROM FINANCING ACTIVITIES		
-Net increase in deposits and other borrowings	3,190,426	1,400,995
-Profit share payment to Public Treasury	(473,955)	(335,499)
-Net increase in loan portfolio	(1,381,004)	(650,364)
-Net increase in available-for-sale and held-to-maturity financial assets	(2,082,554)	(1,727,620)
-Dividends received	1,560	1,420
Cash and cash equivalent applied to financing activities	(745,527)	(1,311,068)
Net decrease in cash and cash equivalents	(404,411)	(656,060)
Cash and cash equivalent at the beginning of the year	12,717,701	13,373,761
Cash and cash equivalent at the end of the year	12,313,290	12,717,701
Non-monetary transactions:		
Donations received	500	275
Unrealized results and available-for-sale financial assets	(183,924)	38,619
Offsetting debt with Public Treasury	203,123	143,786

The accompanying notes from page 7 to 55 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1 INCORPORATION AND BUSINESS PURPOSE

Banco de la Nacion (hereinafter the Bank) was incorporated by Law No.16000 dated January 27, 1966, as an entity ruled by public law belonging to the Economy and Finance Sector with economic, financial and administrative autonomy.

Subsequently, its ncorporation Law was updated through Legislative Decree No.199 dated June 12, 1981. Since November 27, 1992, when issuing the Decree Law No.25907 exclusive rights concerning functions and powers contained in section III of the Organic Law then in force, were no long in effect.

The Bank is governed by its Bylaws, approved by Supreme Decree No.07-94-EF dated January 26, 1994, amended by Emergency Decree No.31-94 dated July 11, 1994 by the State Business Activity Act; it is also governed by government-run business activity law ("Ley de Actividad Empresarial del Estado") and supplementary provisions under the Peruvian General Law of the Financial and Insurance System and Organic Law of the Peruvian banking, insurance and pension fund administrators (SBS, the Spanish acronym); and Law No.26702 (hereinafter the Peruvian General Banking Law).

The Bank is entitled to perform the following functions, which none of them will be exclusively performed by entities of the financial system:

a. Provide banking services to the National Treasury System following instructions given by the (General Treasury Directorate). Those services will be provided on an open market basis together with the other entities in the Peruvian financial system.
b. Provide tax collection services on behalf of tax creditor, subject to the prior approval of the Bank and under a specific tax collection agreement.
c. Conduct, by delegation, transactions with bank subaccounts held by the Public Treasury.
d. Receive resources and funds from Central, Regional and Local Government entities as well as other entities of the National Public Sector.
e. Act as the Government's financial agent.
f. Act on behalf of other banks or financial entities in funneling domestic or foreign resources to credit institutions.
g. Take part in the Government's foreign trade transactions as indicated in its Bylaws. In this case, the Bank will provide bank services and foreign exchange services under to the regulations enacted by the Central Reserve Bank of Peru (Banco Central de Reserva).
h. Receive, on a consignment and custody basis, all administrative and judicial deposits.
i. Provide banking services as a correspondent of financial system entities where financial system entities request it.
j. Receive demand deposits from individuals and legal corporations for payments as suppliers, pensioners, as well as Government workers within the framework of the National Treasury System.
k. Receive saving and custody deposits from individuals and corporations in those areas of the Peruvian territory in which private banks do not have offices or operations, including the issuance of wire transfers, money orders and other cash transactions ordered or in favor of such parties.

l. Provide loans and financial facilities to National, Regional and Local Government entities and other public entities, except for granting loans to Government entities under private law; issuing, acquiring, maintaining and selling bonds and other securities, as set forth by law. The issuance of securities will be performed in accordance with an annual schedule approved by the Peruvian Ministry of Economy and Finance that may be reviewed quarterly.
m. Perform transactions and banking services with Public Sector entities, domestic and foreign banks and financial institutions in order to comply with the duties established in its Bylaws, as well as the profitability and risk hedging of the resources it manages. These transactions are performed in accordance with the annual schedule approved by the Peruvian Ministry of Economy and Finance and may be reviewed quarterly.
n. Grant a single line of credit to workers and pensioners of the Public Sector that, due to their level of income, have savings accounts in the Bank. Such line of credit may be assigned to the beneficiary for use through loans and/or credit cards. These transactions will be made according with an annual schedule approved by the Peruvian Ministry of Economy and Finance that may be reviewed annually.

The Bank's head office is located at Av. Republica de Panama No.3664, San Isidro, Lima, Peru. In order to carry out its activities, the Bank operates through its main office, and a network of 590 offices located throughout the country (558 offices in 2012).

As of December 31 the number of Bank's workers is as follows:

	2013	2012
Managers	15	17
Officers	901	908
Staff	3,522	3,293
	4,438	4,218

Reconciliation with the Peruvian Ministry of Economy and Finance

By Supreme Decree No.002-2007-EF dated January 11, 2007, the Peruvian Ministry of Economy and Finance (hereinafter the MEF) repealed the Supreme Decree No.210-2006-EF dated December 27, 2006, which established, among other matters, the reconciliation of other reciprocal obligations held by the MEF and the Bank as of September 30, 2006, signing a reconciliation agreement on December 28, 2006.

Supreme Decree No.002-2007-EF, dated December 28, 2006, ratified the reconciliation settlement agreement certificate of reciprocal obligations between the MEF and the Bank and established that the offsetting and complete settlement of the MEF's borrowings in favor of the Bank would be made on January 2, 2007; therefore, all borrowings should have been reconciled as of January 1, 2007, including other reciprocal debts that were updated applying the same criteria established in the agreement signed on December 28, 2006.

Reciprocal debts reconciled as of January 1, 2007 resulting from the Reconciliation Agreement Certificate, signed on February 28, 2007, resulted in debts of the MEF in favor of the Bank for US$31,335 thousand and Bank debts in favor of the MEF for US$72,414 thousand, obtaining a net debt in favor of the MEF for US$41,079 thousand.

Likewise, the reconciliation agreement certificate signed by the MEF and the Bank on January 1, 2007, determined additional borrowings of the MEF in favor of the Bank for S/.64,338 thousand and US$849,171 thousand from various borrowing operations approved by explicit legal norms.

As a result of the reciprocal borrowing reconciliation certificates signed by the MEF and the Bank on December 28, 2006 and January 1, 2007, the compensated reciprocal debt is as follows:

	S/.000	US$000
Debt of MEF in favor of the Bank:		
Certificate - December 28, 2006	-	31,335
Certificate - January 1, 2007	64,338	849,171
Debt of the Bank in favor of MEF:		
Certificate - December 28, 2006	-	(72,414)
Debt of MEF in favor of the Bank	64,338	808,092

As per Supreme Decree No.002-2007-EF, amended by the Agreement to Consolidate, Offset and Settle Borrowings ("Convenio de Consoildación, Compensación y Cancelación de Obligaciones") signed between the MEF and the Bank on March 26, 2007, the following conditions were established arising from the offsetting of the reciprocal borrowings between the MEF and the Bank:

a) MEF compensated the debt in favor of the Bank providing on March 30, 2007 a bond for S/.2,644,571 thousand (Note 6); therefore, the debt in US dollars was translated using the selling exchange rate published by the SBS at closing of transactions on January 2, 2007 for S/.3.193 per US$1.

   Bond's balance as of December 31, 2013 and 2012 amounts to S/.1,542,531 thousand and S/.1,745,722 thousand, respectively (Note 6).

b) The bond was issued under the following characteristics:

   - Denominated in Nuevos Soles
   - Non-negotiable
   - Maturity date: 30 years
   - Amortizable annually
   - Yearly interest rate of 6.3824%, payable on a quarterly basis
   - Book-entry form in CAVALI S.A. I.C.L.V.

c) Bond annual amortization is an amount equivalent to no less than 30% of the Bank's profits which corresponds to the Public Treasury. In any case, the amortization cannot be less than S/.60,000 thousand; if profits corresponding to the Public Treasury is not sufficient to cover this amount, the MEF will provide the funds for the difference charging it to budget items allocated to the public debt service.

d) If when the bond reaches maturity there are outstanding balances, the MEF will settle them.

e) Bond's accrued interest will be settled by the MEF.

Approval of the Financial Statements

The financial statements for the year ended December 31, 2012 were approved in Board Meeting No.1994 on March 13, 2013. The financial statements as of December 31, 2013 were approved by Management on January 31, 2014 and will be submitted to the Board when Management considers it appropriate. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors without amendments.

2 SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation -

The Bank's financial statements have been prepared in accordance with relevant legal provisions and Peruvian generally accepted accounting principles applicable to financial institutions. Accounting principles mainly comprise standards issued by the SBS and, on a complementary basis, the International Financial Reporting Standards (IFRS) approved by the "Contaduría Pública de la Nación" through resolutions of the Peruvian standard setter "Consejo Normativo de Contabilidad". IFRS includes the International Accounting Standards (IAS) and the pronouncements of the interpretations committees (SIC and CINIIF).

These accounting principles are consistent with those used in 2012, except for those changes resulting from the IFRS harmonization process described in paragraph a.2.

At the date of these financial statements, the CNC has made official the application of IFRS 1 to 13 and IAS 1 to 41 as well as the international interpretation pronouncements SIC 7 to 32 and IFRIC 1 to 20. As disclosed in note a.2.1, the SBS has approved the changes in the chart of accounts and conceptual framework, the prospective application of which is mandatory with effect from January 1, 2013.

The preparation of the financial statements in accordance with accounting principles requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Bank's accounting policies. The critical accounting estimates and judgments are disclosed in Note 3.

a.2) Accounting changes -

a.2.1) IFRS harmonization process by SBS for entities in the financial system

On September 19, 2012, the SBS issued SBS Resolution No.7036-2012 which amendments to the Chart of Accounts and Conceptual Framework for entities in the financial sector were approved, based on the International Financial Reporting Standards (IFRS), which are effective since January 2013.

Principal guidelines applied by the Bank are detailed as follows:

a.2.1.1) Financial statements

Incorporation of the statement of comprehensive income.

a.2.1.2) Notes to the annual audited financial statements -

Major changes in the minimum disclosures required are as follows:

a.2.1.2.1) Disclosure of related-party transactions: "related parties" refer to individuals or legal entities related to the Bank based on Resolution No.445-2000 "Special standards on relatedness and economic groups" dated June 28, 2000, and amended.

When transactions with related parties occur, the Bank has disclosed the nature of its relationship with related parties as well as information about the transactions, outstanding balances and effect on results for the year.

The Bank has disclosed information regarding the remunerations and benefits received by all of key management, including all payments received. Likewise, it has disclosed at least short-term employee benefits, post-employment benefits and share-based payments, if any.

a.2.1.2.2) Disclosures under IFRS 7 "Financial Instruments: Disclosure" related to the classification, objectives, policies and processes, exposure to credit, liquidity and market risks, market concentration risk of financial instruments, fair value, reclassifications, transfers of financial assets, interest rate sensitivity analysis and classification of financial liabilities by maturity.

a.2.2) New Rules of Classification and Valuation of Investments

In September 2012, SBS, by means of SBS Resolution No. 7033-2012 set forth the new Rules for Classification and Valuation of Investments of Insurance Entities, effective from January 1, 2013.

The impact on the Bank's financial statements mainly referred to matters of disclosure and presentation

b) Foreign currency translation -

Functional and presentation currency

The items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates. The bank's functional and presentation currency is Nuevos Soles.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions, established by the SBS.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

c) Cash and cash equivalent -

Cash and cash equivalent comprise cash in hand, interbank funds and other short-term highly liquid investments easily convertible to cash and subject to insignificant risks of changes in value, of which maturity dates do not exceed 90 days from the acquisition date.

d) Financial instruments -

Financial instruments are defined as any contract that gives rise, simultaneously, to a financial asset in one enterprise and a financial liability or equity instrument in another enterprise.

Financial instruments are classified as asset, liability or equity according to the substance of the contractual agreement that gave rise to them. The Interest, dividends, gains and losses generated by a financial instrument classified as liability are recorded as expenses or income in the statement of comprehensive income. Payments to holders of financial instruments classified as equity are recognized directly in net shareholders' equity.

Financial instruments are offset when there is a legally enforceable right to offset and the Bank's Management has the intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The accounting policies on the recognition and valuation of these items are disclosed in the related accounting policies in each note.

e) Loans and provision for doubtful loans -

Direct loans are recognized when funds are draw down by borrowers. Indirect loans (contingent) are stated when documents supporting the credit facilities are issued. Also, refinanced or restructured loans are those with changed repayment timetables due to the debtor's financial difficulties.

The Loan Portfolio Evaluation Division of the Bank's Risk Department is responsible for performing the ongoing evaluation and classification of the loan portfolio, assigning to each debtor a risk rating based on the guidelines established in SBS Resolution No.11356-2008, and amended.

Types of loans -

In accordance with SBS Resolution No.11356-2008, and its amendments, the Bank classifies its loans as follows: Non- retail (corporate loans, loans to large companies, loans to medium-sized companies) or Retail (loans to small entities, loans to micro-entities, revolving consumer loans, non-revolving consumer loans and residential mortgage loans). These categories take into consideration the nature of the customer (corporate, government or individuals), the purpose of the loan, and business size as measured by income, debt, among other indicators.

Risk categories -

The credit risk classification categories established by SBS are as follows: normal, potential problem, substandard, doubtful or loss which, for the non-retail loan portfolio (corporate, large-sized companies and medium-sized companies), are mainly determined by the borrower's repayment capability, his cash flow, degree of compliance with his obligations, the borrower's risk classification by other financial institutions, the financial situation of the borrower and the quality of management of the borrower. For Retailers (small-sized company loans, micro-enterprise loans, revolving and non-revolving consumer loans and residential mortgage loans), the classification is based on how long payments are overdue and the customer's risk classification in other financial institutions.

Required provisions -

According to laws currently in force, the Bank establishes two types of provisions for loan portfolios: generic and specific provisions.

Generic provisions include those established on a preventive basis for the debtors classified as normal, in accordance with the SBS requirements. Mandatory generic provisions are based on percentage rates, with a fixed and variable component (pro-cyclical) which vary depending on the type of loan.

The specific provisions are those set up on direct loans and the exposure equivalent to credit risk of the indirect loans of the borrowers who have been classified in a higher than normal risk category.

Additionally, in compliance with the SBS Resolution No.041-2005, the Bank assesses the exposure to loan exchange risks for loans in foreign currency and makes certain provisions for debtors which have been rated in a higher than normal risk category, as established by the SBS. The determination of the exposure to credit risk of indirect loans takes into account the following loan conversion factors (FCC, the Spanish acronym):

Description of FCC	(%)
(i) Confirmations of irrevocable letters of credit for up to one year, when the issuing bank is a first level entity from a foreign financial system.	20
(ii) Stand-by letters of credit that support obligations to do or not to do.	50
(iii) Issuance of guarantees, import letters of credit and performance bonds not included in (ii) above; as well as bank acceptances and confirmations of letters of credit not included in (i) above;	100
(iv) Granted loans not disbursed and unused lines of credit.	-
(v) Other indirect loans not included in any of the items above.	100

Determination of the required provisions is made considering the debtor credit rating, whether or not the loan has been secured with a guarantee, and the type of the established guarantees.

As of December 31, 2013 and 2012, the provisions of the direct loan portfolio are determined in accordance with the SBS Resolution No.11356-2008, effective from July 2010, applying the following percentages:

Risk category	Without guarantees %	With preferred guarantees %	With preferred, highly realizable guarantees %	With preferred, self- liquidating guarantees %
Standard				
Mortgage loans	0.70	0.70	0.70	0.70
Corporate loans	0.70	0.70	0.70	0.70
Large-sized company loans	0.70	0.70	0.70	0.70
Medium-sized company loans	1.00	1.00	1.00	1.00
Small-sized company loans	1.00	1.00	1.00	1.00
Micro-enterprise loans	1.00	1.00	1.00	1.00
Revolving consumer loans	1.00	1.00	1.00	1.00
Non-revolving consumer loans	1.00	1.00	1.00	1.00
Potential problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

Pro-cyclical component -

The pro-cyclical provision is required for the loan portfolio classified in the normal risk category. This is an additional component to the above-mentioned rate of the generic provision and is recorded subject to the condition of the "pro-cyclical rule" being activated.

From July 2010, the pro-cyclical component of the provisions of direct and contingent loans and finance leasing operations of the borrowers whose credits are classified as normal by the Bank is as follows:

Type of Loans	Provision rate
Corporate loans	0.40
Large-sized company loans	0.45
Medium-sized company loans	0.30
Small-sized company loans	0.50
Micro-enterprise loan	0.50
Revolving consumer loans	1.50
Non-revolving consumer loans	1.00
Mortgage loans	0.40

For corporate loans, large-sized company loans and mortgage loans with preferred, self-liquidating guarantees, the pro-cyclical component will be 0.3% for the portion covered by such guarantees. For other loans with preferred, self-liquidating guarantees, the pro-cyclical component rate will be 0% for the part covered by such guarantees. For consumer loans with payroll discount agreements, the pro-cyclical component rate will be 0.25%, provided they comply with the requirements of the Resolution.

The SBS has the power to activate or deactivate the application of the pro-cyclical component depending on the behavior of the percentage of the average annual gross domestic product (GDP) if it is above or below 5%.

The SBS has established that while the pro-cyclical provision is not activated, financial institutions are not allowed, under any circumstance, to generate profits from the reversal of such provisions, which should be used only for recording mandatory specific provisions.

From September 2009, by Circular No.B-2181-2009, the SBS authorized the deactivation of the pro-cyclical provision, and by Circular No.B-2193-2010, it approved its activation, with effect from the information corresponding to September 2010, for which financial entities were required to establish said provisions at the latest with effect from the information corresponding to October 2010. As of December 31, 2013 and 2012, the pro-cyclical rule for the loan portfolio provision is activated.

When the loan is considered uncollectable, it is written-off against the respective provision for doubtful accounts. Any subsequent recovery of amounts previously written-off is credited to the statement of comprehensive income.

The provision for loan losses is maintained at a level which, according to Management's judgment, is sufficient to absorb potential loan losses at the date of the statement of financial position.

Provision for excess borrowing of the retail portfolio -

In compliance with SBS Resolution No. 6941-2008, the Bank makes an additional generic provision of 1% on direct loans. Such provision is applicable to direct loans to small entities, loans to micro-entities, revolving and non-revolving consumer loans of borrowers classified by the Bank in the category of Normal, as appropriate.

Provisions for direct loans are disclosed deducted the balance from related asset (Note 7) and provisions for indirect loans are disclosed as liabilities (Note 14).

f) Financial assets-

The criteria for the initial recognition and valuation of financial assets applied by the Bank comply with SBS Resolution No.7033-2012 effective as from January 1, 2013, which replaces SBS Resolution No.10639-2008 "Rules for Classification and Valuation of Financial Assets in the Financial System" ("Reglamento de Clasificación y Valorización de las Inversiones de las Empresas del Sistema Financiero") which classifies financial assets in four categories: (i) at fair value through profit or loss, (ii) available-for-sale, (iii) held-to-maturity and (iv) investments in subsidiaries, associates and interest in joint ventures.

In all cases, they are initially recognized using the "trade-date" methodology stated in IFRS 39; that is, the date on which the Bank and the seller assume the reciprocal obligations arising from the transaction.

The Bank presents financial assets classified in the following categories:

Available-for-sale financial assets -

The category of available-for-sale financial assets includes all financial assets that are not classified at fair value through profit or loss, held-to-maturity financial assets or investments in subsidiaries and associates.

Available-for-sale financial assets are initially measured at fair value, including transaction costs directly attributable to the acquisition of such securities. These financial assets are subsequently measured at fair value and variations are recognized in the equity under "Unrealized results" unless there is evidence of permanent impairment. When the instrument is sold or realized, the gain or loss that was previously recognized in equity will be transferred and recognized to the results of the period.

For debt instruments, before they are stated at fair value, entities are required to account at amortized cost under the effective interest rate method; once such amortized cost has been obtained, any profit or loss resulting from changes in fair value must be recognized.

Held-to-maturity financial assets -

Comprises financial assets that represent debt acquired with the intention of holding them to maturity and they are initially recognized at fair value, including costs directly attributable to the transaction and are subsequently measured at amortized cost using the effective interest rate method, less impairment losses.

Interest is recognized using the effective interest rate method.

In cases of impairment, the carrying amount of the financial asset will be and the loss will be recognized in the statement of comprehensive income.

g) Impairment of financial assets -

The Bank evaluates, on a quarterly basis, whether there is evidence that a financial asset classified as available-for-sale and held-to-maturity has been impaired. For that purpose, the Bank monitors the following conditions:

First filter:

At each quarter-end, for the entire financial asset portfolio, the Bank assesses the following conditions:

a) Significant decrease in fair values: if the fair value at the closing date decreases by more than 50% of its cost.
b) Prolonged decrease in fair value: if the monthly average fair value decreases consecutively for the last twelve months and the cumulative decrease in fair value for that period is at least 20%.

That analysis is performed in the original currency of the financial asset; however, if there is impairment, it is accounted for in the functional currency (Nuevo Sol).

In the event that at least one of the above-mentioned conditions (a o b) is met, an assessment should be made whether they are justified by the conditions included in the second filter below:

Second filter:

For those instruments that passed the first filter, the Bank assesses the following conditions:

1) Deterioration of the financial condition or financial ratios of the issuer and its economic group.
2) Adverse conditions of the financial asset and issuer.
3) Downgraded risk rating resulting from additional matters to those indicated in the referred filter.
4) Interruption of payment of interest or the principal due to the issuer's financial difficulties.
5) Interruption of transactions or an active market due to the issuer's financial difficulties.
6) Forced re-negotiation of the instrument contractual conditions due to legal or economic reasons related to the issuer.
7) Evidence that the issuer will enter bankruptcy or forced restructuring.
8) Decline in carrying amounts due to changes in the regulations and standards.
9) The Bank does not have the intention and capacity to maintain the investment with losses until value is recovered.

If at least two of the above conditions are met, the Bank will determine the amount of any impairment loss and will record it depending on the type of the instrument, as described below:

Available-for-sale financial assets

When financial instruments classified in this category suffer impairment, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit for the year as a reclassification adjustment.

The amount of the cumulative loss that had been reclassified from equity to profit or loss for the year will be the difference between the acquisition cost and the present fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Held-to-maturity financial assets

The amount of the impairment loss incurred will be the difference between the asset's carrying amount (amortized cost) at the time impairment is detected and the present value of the future cash flows expected to be recovered, discounted at the original effective interest rate (buying IRR). The carrying amount of the instrument will be reduced and the impairment loss will be recognized in the results of the period.

h) Property, furniture and equipment -

Property, furniture and equipment are recognized at acquisition cost, less accumulated depreciation and accumulated amount of any impairment loss during their useful lives. Expenses subsequent to the acquisition are only recognized as an asset when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. The cost and accumulated depreciation of disposed premises, furniture and equipment are de-recognized from the corresponding accounts and the resulting gain or loss is recognized in the results of the period in which it occurs.

Work in progress and in-transit items are recognized at acquisition cost. These items are not depreciated until the relevant assets are terminated and/or received and are operative.

Land is not depreciated. Depreciation has been calculated using the straight-line method considering the following estimated useful lives:

	Years
Buildings	33
Premises, furniture and equipment	10
Vehicles and improvements to leasehold	5
IT	4

Useful life and depreciation method are periodically reviewed by Management to ensure their consistency with the economic benefit pattern of items related to property, furniture and equipment.

i) Impairment of non-financial assets-

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management reviews the carrying amount of long-lived assets to verify if they have been impaired. When the carrying amount of an asset held at cost exceeds its recoverable amount, an impairment loss is recognized in the statement of comprehensive income.

The recoverable amount of a long-lived asset is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal of a long-lived asset is the expected amount to be obtained from the sale of an asset will be sold in a free market; while the value in use is the present value of the estimated future cash flows that will result from the continuous use of the asset, as well as its final disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if that is not possible, for cash-generating unit.

Impairment losses recognized in previous years are reversed if there is a change in the estimates that were used when said loss was last recognized.

j) Workers' and Pensioner's Social benefits -

Workers' and Pensioner's Social benefits are comprised of:

Workers' profit sharing

The Bank recognizes a liability and an expense for workers' profit sharing based on 5% of taxable income determined in accordance with current tax legislation.

Vacation and other personnel benefits

The employees' annual vacation leave, other paid absences and other personnel benefits are recognized on an accrual basis.

Employees' severance indemnities

The provision for employees' severance indemnities comprises all employees' rights to indemnities in accordance with the current legislation and must be settled by making deposits in bank accounts designated by employees. The calculation of employee's severance indemnities which must be settled at the date of the statement of financial position is included in the account provision for social benefits for employees and is presented in the statement of financial position under obligations with the public.

Retirement pensions

The provision for retirement pensions includes mainly the provisional obligations of the Pension Regime under Decree Law 20530. Under IAS 19, "Employee benefits", the provision for retirement pensions is part of a Government Plan of Defined Benefit, and the Bank is obliged to provide benefits according to Decree Law 20530 and complementary standards. Within the defined benefit scheme, actuarial risk is assumed by the Bank and supported by its assets and operations. Based on the life expectations of the beneficiaries of this scheme, Management considers that the amount of this obligation will be decreased progressively in the long-term.

The provision for the retirement reserve fund for working and retired personnel is recognized in accordance with Supreme Decree No.043-2003-EF published on March 28, 2003, which establishes that State companies will be governed by the Accounting Resolution No.159-2003-Ef/93.01 published on March 12, 2003, which approved Instruction No.20-2003-EF/93.01 that establishes the accounting procedure to record and control of pension reserves, non-pension reserves and reserves for contingencies.

The Bank fully records the results of actuarial calculations for pension reserves as liability. The total amount of provisional obligations is adjusted based on the amounts obtained from future actuarial calculations in relation to the previous actuarial calculation and the variation is applied directly to the results of corresponding period.

The actuarial calculation of the provisional obligations is made on an annual basis by an qualified actuary of the Planning, Statistics and Rationalization Division of the Social Security Administration Office" (hereinafter ONP) using the technical guidelines of the ONP approved by Resolution No.227-2009-Jefatura/ONP on December 4, 2009. The carrying amount of the pension, determined in accordance with the actuarial calculation, is measured at the present value of all future pension payments using a discount rate of 4.5% because the financial instruments held by the Bank ensure profitability rates above 4% (annual technical interest rate – TITA, the Spanish acronym) for a medium- and long-term.

k) Provisions and contingencies -

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are reviewed and adjusted in each period to reflect the best estimate available at the date of the statement of financial position.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are only disclosed in notes to the financial statements unless the possibility of an outflow of economic resources is remote.

Contingent assets are not recognized in the financial statements and they are only disclosed if an inflow of economic benefit is probable.

l) Revenue and expense recognition -

Interest revenue and expenses are recorded in the results of the period as they are accrued based on the period of the operations that give rise to them and the interest rates agreed with clients. Commissions for banking services are recognized as income when received.

If Management considers that there are reasonable doubts related to the collection of the principal of a loan, the Bank suspends the recognition of interest in profit and loss and records it in an off-balance sheet account; and this interest is recognized as earned as it is collected. When Management determines that the debtor's financial position has improved to the point that there is no more doubt regarding the recovery of interest, the recording on accrual basis is restated.

Interest income includes yield on fixed income investments and held-for-trade securities, as well as the recognition of discount and the premium on financial instruments. Dividends are recognized as income when declared.

Other income and expenses are recorded in the period they are accrued.

m) Income tax -

Current income tax is calculated based on the taxable income and recorded in accordance to tax legislation applicable to the Bank.

Deferred income tax is determined using the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using current tax rates and laws; and that are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are recognized regardless the temporary differences estimated will disappear. Deferred income tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be offset.

Deferred income tax is recognized as an expense or income for the year or is charged or credited directly to equity when related to items that have been charged or credited directly to equity.

n) Exchange gains and losses -

Foreign exchange transactions are translated to the functional currency at the exchange rate established by SBS, at the date they occur.

Foreign exchange gains and losses resulting from settlement of monetary assets denominated in foreign currencies or adjustment of assets and liabilities from changes in exchange rates after initial recognition are recognized as income or expense, in the statement of comprehensive income in the period in which they are generated.

o) Trust Activities -

Assets and cash flows arising from trust transactions which include a commitment to return such assets and cash flows to clients and in which the Bank acts as a trustee, are not included in the financial statements because they are not owned by the Bank and are only recognized in off-balance sheet accounts for control purposes.

p) Reclassification -

Certain reclassifications have been included in the financial statements of 2012 as a result of changes in the Peruvian accounting chart applicable to the entities of the financial system as part of the harmonization process with IFRS by the SBS in order to enable comparisons. Accordingly, the result of 2012 is S/.1,984 thousand less than the amount previously disclosed, and this difference is reflected in the retained earnings of said year.

p) New standards applicable from 2013 -

p.1) International Financial Reporting Standards (IFRS) issued and effective in Peru but not adopted by the SBS for financial system entities until December 31, 2013.

The SBS has decided to defer the requirement of impairment testing of loans within the framework of IFRS until completion of the Project of standards related to financial instruments, as per SBS Resolution No.7036-2012 dated September 19, 2012.

p.2) International Financial Reporting Standards (IFRS) issued but not yet effective -

The standards issued but not yet effective at the date of the Bank's financial statements are listed below. The listing includes Standards and interpretations issued which the Bank reasonably foresees will be applicable in the future. The Bank has the intention to adopt such standards when they become effective:

IFRS 9 - Financial instruments

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the measurement model of financial assets and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The bases of classification will depend on the entity's business model and the contractual characteristics of the cash flow of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge contracts continues to apply.

Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting of assets and liabilities.

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position.

Amendment to IAS 36 - Impairment of assets

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Financial instruments: Recognition and Measurement and Amendment to IAS 39 – Novation of derivatives.

This amendment provides relief for discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

IFRIC 21, 'Charges', sets out the accounting for an obligation to pay a charge that is not income tax. The interpretation addresses the obligating event that gives rise to pay a charge and when a liability should be recognized.

Amendments to IFRS 10, 12 and IAS 27 on consolidation of investment entities.

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments make an exception for entities that meet the definition of 'investment entity' and which display particular characteristics. Changes have also been made to IFRS 12 in relation to the disclosures that an investment entity must present.

The IASB has released a draft of its proposed amendments and improvements to IFRS. The amendments have not yet been adopted because their effective date is for annual periods beginning or after January 1, 2013.

The SBS, as stated in note 2.a, is presently carrying out a harmonization project with IFRS. Accordingly, the Bank considers it necessary that the SBS should include all the IFRS described in the above paragraph as part of all of the standards evaluated in the harmonization process so that the Bank can assess their overall impact on its financial statements.

q) Accounting improvement actions in the Public Sector -

Pursuant to Law No.29608, published on November 4, 2010, the holders of entities and public entities within the framework of the Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE, are required to implement in their respective jurisdictions actions for the improvement of accounting information, in order to clear and adjust the accounting information so that the financial statements give a true and fair presentation of the economic, financial and equity situation of the entity.

The Public General Accounting Office of the MEF, under Law No.29608, has established procedures to record economic facts to be regularized as a result of accounting improvement actions of transactions with entities within the public sector.

Within the legal framework described above, the General Public Accounting Directorate ("Dirección General de Contabilidad Pública") issued Guideline No.003-2011-EF/93.01, approved by Directorial Resolution No.012-2011-EF/93.01 "Lineamientos Básicos para el Proceso de Saneamiento Contable en el Sector Público" so that public entities establish the actual existence of goods, rights and obligations that affect public equity, including certified information and supporting documentation that evidence their reality and existence, in order to establish the balances of the accounts that will be cleared and finally so that the financial statements present a true and fair disclosure of the economic, financial and equity situation of public entities and provide consistent and timely information to prepare the General Accounting Account of the Republic, an instrument used to make decisions regarding the country.

By means of Official Circular SIED No.27-2011, FONAFE established that the Bank should prepare a diagnosis regarding the current accounting situation in order to recognize, classify and measure accounts, the balances of which deserve the application of accounting improvement actions. Within the referred legal framework, the Bank's Board of Directors approved the establishment of the Accounting Improvement Committee based on the decision adopted in Meeting No.1861 on June 23, 2011, in order to comply with the functions established in Guideline No.003-2011-EF/93.01. By means of the agreement adopted in Board of Directors Meeting No.1918 on September 12, 2012, said Committee was amended.

By means of Directorial Resolution No.014-2012-EF/51.01, General Public Accounting Directorate of the Ministry of Economy and Finance set August 31, 2012 as the presentation date of the progress report on the accounting improvement actions; the presentation date for final results is March 31, 2013. On December 11, 2012, the Bank submitted for consideration of the Accounting Improvement Committee the final results of the completed accounting improvement actions, which were approved at Board of Directors Meeting No.1932 on December 19, 2012.

The Bank's Accounting Improvement Committee, as per Guideline No.003-2011-EF/93.01, as established in the following handbook "Manual de Procedimientos para las Acciones de Saneamiento Contable para las Empresas y Entidades de Tratamiento Empresarial del Estado" reviewed, analyzed and cleared the accounts that should be eliminated from the statement of financial position as well as receivables that should be written-off based on the proposals presented by the corresponding organic units and the Committee has requested the clearing of certain items, based on the report of the Department of Legal Advisory and approval of the Bank's Board of Directors.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical accounting estimates and judgments -

The preparation of the financial statements requires Management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the recognition of income and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions are modified because of changes in the circumstances on which they were based, the effect of the change will be included in the determination of the profit or loss in the year in which the change occurs, and of future periods, if required. Significant estimates related to the financial statements are: the provision for loan losses, other receivables and contingent credits; the useful life assigned to property, furniture and equipment; the recording of contingent liabilities, and the calculation of current and deferred income tax.

Provision for loan portfolio losses -

The bank makes specific and generic provisions for its loan portfolio following criteria established by the SBS. The generic provision includes the mandatory generic provision, the pro-cyclical provision and the provision for over-borrowing.

The specific provision is made on the basis of the risk rating of customers ranked in any of these categories: with potential problems, substandard, doubtful and loss.

The pro-cyclical provision is made when the SBS activates the pro-cyclical rule and is determined for loans ranked as normal.

Others -

See Notes 2-j) salaries, retirement pensions and 2-g) fair value of available-for-sale financial assets.

Income tax -

Determination of the tax liabilities and expenses requires interpretations of the applicable tax laws and regulations. The Bank seeks professional tax advice to take the best decision. Even though Management considers that its estimates are prudent and appropriate, differences of interpretation may arise from the interpretation made by Peruvian tax authorities that may affect future tax charges.

4 FINANCIAL INSTRUMENTS BY CATEGORY

The classification of this item is as follows:

	Financial assets				Financial liabilities	
	Loans and receivables	Available-for sale	Held-to-maturity	Total	Loans	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
As of December 31, 2013						
Assets and liabilities as per the statement of financial position:						
Available funds	12,313,290	-	-	12,313,290	-	-
Available-for-sale financial assets	-	5,142,253	-	5,142,253	-	-
Held-to-maturity financial assets	-	-	1,542,531	1,542,531	-	-
Loan portfolio	6,808,306	-	-	6,808,306	-	-
Receivables	382,988	-	-	382,988	-	-
Other assets	153,630	-	-	153,630	-	-
Borrowings with the public	-	-	-	-	22,287,198	22,287,198
Deposits with local and international financial institutions	-	-	-	-	358,315	358,315
Payables	-	-	-	-	230,838	230,828
Provisions	-	-	-	-	116,417	116,417
Other liabilities	-	-	-	-	206,654	206,654
	19,658,214	5,142,253	1,542,531	26,342,998	23,199,422	23,199,422
As of December 31, 2012						
Assets and liabilities as per the statement of financial position:						
Available funds	12,717,701	-	-	12,717,701	-	-
Available-for-sale financial assets	-	3,192,877	-	3,192,877	-	-
Held-to-maturity financial assets	-	-	1,745,722	1,745,722	-	-
Loan portfolio	5,473,217	-	-	5,473,217	-	-
Receivables	283,240	-	-	283,240	-	-
Other assets	85,268	-	-	85,268	-	-
Borrowings with the public	-	-	-	-	19,290,953	19,290,953
Deposits with local and international financial institutions	-	-	-	-	382,940	382,940
Payables	-	-	-	-	252,355	252,355
Provisions	-	-	-	-	96,610	96,610
Other liabilities	-	-	-	-	126,464	126,464
	18,559,426	3,192,877	1,745,722	23,498,025	20,149,322	20,149,322

5 CASH-IN HAND

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Cash:		
Main Office	440,733	497,637
Branches and agencies	310,587	306,141
Offices	128,394	113,157
In-transit cash	107,383	217,548
Gold and silver bullion	148	148
	987,245	1,134,631
Banco Central de Reserva del Perú:		
Ordinary account	2,711,812	2,554,681
Special account	8,295,967	5,230,441
Overnight deposit	148,135	433,500
Time deposit	-	3,008,000
Interest accrued on cash in hand	16,798	48,286
	11,172,712	11,274,908
Banks and other entities in the country's financial system	14,684	20,842
Banks and other foreign financial institutions	103,364	242,612
Clearing	34,650	44,170
Interest accrued on cash in-hand and other cash	635	538
	153,333	308,162
	12,313,290	12,717,701

As of December 31, 2013, the available balance includes US$40,004 thousand and S/.2,600,000 thousand (US$112,594 thousand and S/.3,204,452 thousand at December 31, 2012) intended to meet the requirement that the Bank has to maintain a legal cash reserve for third-party deposits, under the limits required by regulations currently in force. These funds are maintained as deposits in the Peruvian Central Reserve Bank (BCRP) and in the Bank's vaults.

The legal cash reserve requirement funds held in BCRP are non-interest-bearing except for the payable portion of the legal reserve in foreign and local currency that exceeds the minimum legal reserve. At December 31, 2013, the surplus of the minimum legal cash reserve, in foreign and local currency, accrues interest at annual rates of 0.04%% and 1.45%, respectively (annual rate of 0.11% and 1.70%, respectively at December 31, 2012).

As of December 31, 2013 and 2012, overnight transactions deposited in BCRP amounted to US$53,000 thousand and US$170,000 thousand, respectively.

Deposits in banks within the country and abroad mainly comprise balances in new Peruvian soles and US dollars, as well as other currencies for smaller amounts; these deposits are free availability and bear interest at market rates.

In 2013 the interest income on cash-in hand amounted to S/.234,275 thousand (S/.316,535 thousand in 2012) and is included in financial income in the statement of comprehensive income.

6 AVAILABLE-FOR-SALE AND HELD-TO-MATURITY FINANCIAL ASSETS

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Available-for-sale financial assets -		
Securities issued by the Peruvian government:		
Certificate of deposits held for trade - BCRP (a)	2,707,723	1,883,707
Sovereign bonds (b)	864,359	675,111
Global bonds (b)	914,866	293,128
Commercial paper	3,234	-
Country Investment Grade (c)	8,221	-
	4,498,403	2,851,946
Accrued interest	73,781	36,523
Provision for country risk	(1,012)	-
	4,571,172	2,888,469
Securities issued by other entities (d):		
Corporate bonds	520,728	257,858
Shares	35,584	24,312
Commercial paper	-	7,966
Securitized bonds	6,558	6,933
Certificates of held-for-trade deposits	-	4,985
Finance lease bonds	-	325
	562,870	302,379
Accrued interest	8,211	2,455
Provision for country risk	-	(426)
	571,081	304,408
	5,142,253	3,192,877
Held-to-maturity financial assets		
National Public Treasury Bonds:		
Bonds - D.S. No.002-2007(e)	1,542,531	1,745,722
	1,542,531	1,745,722
	6,684,784	4,938,599

a) The certificates of deposits are freely negotiable securities to bearer with current maturity, acquired in public auctions carried out by BCRP and are traded in the Peruvian secondary market. As of December 31, 2013, internal rates of return in local currency range from 3.6439% to 4.1570%, and the interest rates in each auction are determined by BCRP.

b) Sovereign and global bonds are acquired at rates and prices offered in the market at the date of the transaction. As of December 31, 2013, sovereign bonds generate yields at annual interest rates in local currency that range from 4.1288% to 6.6821% (from 4.19% to 5.59% as of December 31, 2012) and mature between the years 2014 and 2042. Additionally, at the end of the period, global bonds generate yields at internal rates of return that range from 0.3622% to 4.7743% (from 0.59% to 3.98% in 2012) and mature between the years 2014 and 2050.

c) Country Investment Grade mainly comprises bonds acquired from the US Department of the Treasury. As of December 31, 2013, the annual interest rate is 2.7267% and it matures in 2014.

d) Securities issued by other entities at December 31 are distributed in the following economic sectors:

	2013 S/.000	2012 S/.000	2013 %	2012 %
Financial entities	226,529	141,823	40	46
Industrial entities	254,242	91,111	44	30
Power entities	61,855	48,747	11	16
Telephony entities	20,244	20,698	4	7
	562,870	302,379	99	99
Interest accrued and provision for country risk	8,211	2,029	1	1
	571,081	304,408	100	100

Corporate bonds mainly comprise instruments acquired from first-rate entities. As of December 31, 2013, annual interest rates range between 2.3043% and 6.8578% (between 0.05% and 6.29% as of December 2012).

e) As of December 31, 2013 and 2012, held-to-maturity financial assets comprise Supreme Decree Bond No.002-2007 issued by MEF to offset and consolidate reciprocal debt between MEF and the Bank (Note 1). Said bond bears interests at a coupon rate of 6.3824% payable on a quarterly basis, with annual amortization and with maturity at 30 years. During 2013 this bond generated interest for S/.98,490 thousand (S/.111,117 thousand in 2012) which is recognized in the item income from held-to-maturity financial assets in the statement of comprehensive income.

In Board of Directors Meeting No.1994 held on March 13, 2013, the Bank approved the distribution of net profit for year 2012 in favor of the Public Treasury. Accordingly, an annual amortization was made of Supreme Decree Bond No.002-2007-EF for S/.203,123 thousand as a result of said distribution (Note 16-b).

In Board of Directors Meeting No.1895 held on March 21, 2012, the Bank approved the distribution of net profit for year 2011 in favor of the Public Treasury. Accordingly, an annual amortization was made of Supreme Decree Bond No.002-2007-EF for S/.143,786 thousand as a result of said distribution (Note 16-b).

As of December 31, 2013 and 2012, the accrued interest of available-for-sale and held-to-maturity financial assets amounted to approximately S/.272,887 thousand and S/.198,174 thousand, respectively and are included in finance income in the statement of comprehensive income.

7 LOAN PORTFOLIO, NET

a) As of December 31 this item comprises:

	2013 S/.000	2013 %	2012 S/.000	2012 %
Direct loans:				
Current	7,068,016	102	5,696,003	102
Refinanced	773	-	381	-
Past due	13,783	-	15,166	-
Legal collection	23,607	(-)	(18,874)	-
	7,106,179	102	5,730,424	102
Income from deferred interest on refinanced loan	(237)	-	(135)	-
Interest accrued on current loans	37,764	1	32,295	1
Provision for loans	(199,816)	(3)	(175,159)	(3)
Total direct loans, net	6,943,890	100	5,587,425	100
Indirect loans (Note 18)	1,179,084		530,776	

The loan portfolio (direct and indirect) is secured with guarantees provided by clients, mainly government pensioners, individuals who work in government-run agencies that maintain deposits in the Bank.

As of December 31 the annual effective rates for main products were as follows:

	2013		2012	
	Local currency %	Foreign currency %	Local currency %	Foreign currency %
Overdrafts	7-17	12	7 - 17	12
Corporate loans	7-13	8	7 - 13	8
Personal loans	10-19	-	10 - 19	-
Mortgage loans	7-10	-	7 - 10	-

b) Under the standards currently in force, published by the SBS, as of December 31 the Bank's loan portfolio is classified by risk category as follows (not including income from deferred interest on refinanced loans):

Risk category	Corporate loans		Personal loans		Mortgage loans		Total	
	S/.000	%	S/.000	%	S/.000	%	S/.000	%
Year 2013								
Normal	3,807,059	99,83	3,085,119	96.76	103,350	99,40	6,995,528	98.45
PP	-	-	19,904	0.62	121	0.12	20,025	0.28
Substandard	-	-	13,857	0.43	92	0.09	13,949	0.20
Doubtful	-	-	41,500	1.30	315	0.30	41,815	0.59
Loss	6,598	0.17	27,934	0.89	93	0.09	34,625	0.48
	3,813,657	100.00	3,188,314	100.00	103,971	100.00	7,105,942	100.0
Year 2012								
Normal	2,797,616	99.77	2,754,559	96.52	71,844	99.11	5,624,019	98.15
PP	-	-	17,570	0.62	270	0.37	17,840	0.31
Substandard	-	-	14,978	0.52	219	0.30	15,197	0.27
Doubtful	-	-	42,298	1.48	57	0.08	42,355	0.73
Loss	6,428	0.23	24,354	0.86	96	0.14	30,878	0.54
	2,804,044	10.00	2,853,759	100.00	72,486	100.00	5,730,289	100.00

c) As of December 31 direct loans are distributed in the following economic sectors:

	2013		2012	
	S/.000	%	S/.000	%
Personal loans	3,188,551	45	2,853,895	50
Public administration and defense	2,467,823	35	1,896,671	33
Financial intermediary	1,141,735	16	809,139	14
Mining	197,500	3	91,800	2
Mortgage loans	103,971	1	72,486	1
Transportation, storage and communication	3,100	-	2,976	-
Other community service activities	1,856	-	1,826	-
Manufacturing industry	1,581	-	1,568	-
Others	50	-	51	-
Trade	12	-	12	-
	7,106,179	100	5,730,424	100

Direct loans have the following contractual maturities as of December 31:

	2013 S/.000	2012 S/.000
Up to 1 month	394,921	219,939
From 1 month to 6 months	1,413,797	867,875
From 6 months to 1 year	1,095,266	1,021,127
Over 1 year	4,039,906	3,478,484
	6,943,890	5,587,425

d) The movement of the provision for uncollectible direct loans is as follows:

	Specific S/.000	Generic S/.000	Total S/.000
Balances as of December 31, 2011	90,966	106,815	197,781
Additions debited to results	13,703	8,746	22,449
Exchange differences	(452)	(304)	(756)
Recovery of provisions	(396)	(1,049)	(1,445)
Write-offs and transfers	(42,870)	-	(42,870)
Balances as of December 31, 2012	60,951	114,208	175,159
Additions debited to results	4,103	24,596	28,699
Exchange differences	222	124	346
Recovery of provisions	(816)	(3,344)	(4,160)
Write-offs and transfers	(228)	-	(228)
Balances as of December 31, 2013	64,232	135,584	199,816

The generic provision as of December 31 comprises:

	2013 S/.000	2012 S/.000
Pro-cyclical provision	46,412	39,026
Provision for over indebtedness risk of retail debtors	30,851	27,546
Others	58,321	47,636
	135,584	114,208

Bank Management considers that the provision for loans recorded as of December 31, 2013 and 2012 complies with the standards issued by the SBS in force at those dates.

8 RECEIVABLES, NET

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Receivables from COFIDE (a)	274,020	250,000
Other receivables (b)	136,053	67,981
	410,073	317,981
Provision for doubtful accounts (c)	(27,085)	(34,741)
	382,988	283,240

(a) By Emergency Decree No.024-2009 dated February 19, 2009, the Business Guarantee Fund was established ("Fondo de Garantía Empresarial – FOGEM") with an amount of S/.300,000 thousand, whose purpose is to secure loans that entities within the National Financial System grant in favor of micro and small productive businesses, in services and trade, as well as mid-sized businesses engaged in production activities and/or services in non-traditional export chains.

Based on that Emergency Decree, the Bank was authorized to use its own resources to provide FOGEM a contribution as a trustee amounting to S/.300,000 thousand.

FOGEM is managed in a trust by Corporación Financiera de Desarrollo S.A. (COFIDE) under the terms and conditions of the agreement signed between both institutions.

The effective period to make use of FOGEM was 2 years, from the effective date of the Operating Rules; however, by Emergency Decree No.058-2011 dated October 26, 2011, said period was extended up to September 30, 2012 and by public-sector budget law ("Ley de Presupuesto del Sector Público") for fiscal year 2014 in its "Centésima Primera Disposición Complementaria Final", the effective period to make use of FOGEM was extended until December 31, 2016.

As of December 31, 2013 and 2012, receivables from COFIDE correspond to the amount transferred to FOGEM amounting to US$98,039 thousand (equivalent to S/.274,020 thousand as of December 31, 2013 and S/.250,000 thousand as of December 31, 2012).

(b) The balance of Other receivables includes advances to suppliers for S/.64,186 thousand for the construction project of the new institutional office. The total cost of this project amounts to S/.424,889 thousand.

(c) The movement of the provision for bad debts is as follows:

	2013 S/.000	2012 S/.000
Balances as of January 1	34,741	25,305
Additions debited to results	4,982	14,221
Others, net	(12,638)	(4,785)
Balances as of December 31	27,085	34,741

9 PROPERTY, FURNITURE AND EQUIPMENT, NET

The movement in the cost and accumulated depreciation of the property, furniture and equipment account for the year ended December 31, 2013 and 2012 is as follows:

	Balances as of December 31, 2012 S/.000	Additions S/.000	Write-offs S/.000	Transfers S/.000	Adjust-ments S/.000	Balances as of December 31, 2013 S/.000
Year 2013:						
Cost:						
Land	54,795	-	-	4,349	500	59,644
Buildings and premises	394,615	135	-	7,755	(3,345)	399,160
Furniture and equipment	92,947	4,141	(265)	1,705	(3)	98,525
Computer equipment	145,671	21,896	(307)	10,281	(27)	177,514
Vehicles	6,935	1,975	(57)	-	42	8,895
Work in progress	22,080	5,526	-	(17,010)	(717)	9,879
In-transit items	24,681	-	-	(11,082)	4,706	18,305
Premises and improvements to leasehold	7,871	-	-	8,351	(3,153)	13,069
Carried forward:	749,595	33,673	(629)	4,349	(1,997)	784,991

	Balances as of December 31, 2012 S/.000	Additions S/.000	Write-offs S/.000	Transfers S/.000	Adjust-ments S/.000	Balances as of December 31, 2013 S/.000
Brought forward:	749,595	33,673	(629)	4,349	(1,997)	784,991
Year 2013:						
Depreciation:						
Buildings and premises	240,851	6,252	-	-	4,131	251,234
Furniture and equipment	52,626	7,627	(66)	-	(115)	60,072
Computer equipment	107,821	16,620	(278)	-	133	124,296
Vehicles	6,158	613	(40)	-	-	6,731
Premises and improvements to leasehold	4,044	7,568	-	-	(4,496)	7,116
	411,500	38,680	(384)	-	(347)	449,449
Less impairment of properties	(41,131)	-	500	(4,349)	1,650	(44,980)
	296,964					290,562
Year 2012:						
Cost:						
Land	54,428	276	-	85	6	54,795
Buildings and premises	380,295	-	-	14,260	60	394,615
Furniture and equipment	88,536	2,864	(574)	2,213	(92)	92,947
Computer equipment	131,381	13,939	(105)	2	454	145,671
Vehicles	6,935	-	-	-	-	6,935
Work in progress	41,609	4,184	-	(21,607)	(2,106)	22,080
In-transit items	5,791	24,781	-	(979)	(4,912)	24,681
Premises and improvements to leasehold	22,276	-	-	6,026	(20,431)	7,871
	731,251	46,044	(679)	-	(27,021)	749,595
Depreciation:						
Buildings and premises	228,560	11,857	(6)	-	440	240,851
Furniture and equipment	45,645	7,344	(503)	-	140	52,626
Computer equipment	90,074	17,851	(104)	-	-	107,821
Vehicles	5,761	397	-	-	-	6,158
Premises and improvements to leasehold	16,597	1,364	(19,588)	-	5,671	4,044
	386,637	38,813	(20,201)	-	6,251	411,500
Less impairment of properties	(41,131)	-	-	-	-	(41,131)
	303,483					296,964

Under standards currently in force, banks in Peru are not allowed to give the items that comprise their property, furniture and equipment as guarantees except for those acquired through the issuance of finance lease bonds to carry out transactions of said nature.

10 OTHER ASSETS, NET

	2013 S/.000	2012 S/.000
Current taxes (a)	102,566	20,852
Head Office and Branches (b)	65,647	41,618
Operations in process (c)	73,860	34,033
Intangibles	34,280	20,932
Advance payments and Deferred Charges	14,123	9,617
Other	1,184	1,644
	291,660	128,696

As of December 31, this item comprises:

(a) The balance of current taxes mainly comprises balances in favor of the Bank regarding income tax from prior years.

(b) The balance of head office and branches corresponds to transactions in process between the Bank's offices nation-wide. The main kind of transaction is money remittances transferred from head office via the Peruvian Central Reserve Bank to the agencies and offices inside the country.

(c) Operations in process are transactions carried out in the last days of the month, reclassified in the following month to their definitive accounts of the statement of financial position. These transactions do not affect the Bank's profit or loss. As of December 31, 2013, it includes provisions for contingent loans for S/.23,183 which were transferred to their respective accounts in January 2014 (S/.23,846 thousand as of December 31, 2012).

11 BORROWINGS WITH THE PUBLIC

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Borrowings at sight (a)	14,588,449	12,214,737
Borrowings for savings accounts (b)	4,979,569	4,358,552
Borrowings for time deposits (c)	236,142	310,063
Other borrowings (d)	4,414,773	4,120,362
Expenses payable for borrowings	84,506	84,674
	24,303,439	21,088,388

The effective annual interest rate for savings deposits and time deposits, applicable for 2013 and 2012, ranged from 0.20% to 0.90% in local currency and from 0.09% to 0.40% in foreign currency.

(a) Borrowings at sight comprise:

	2013 S/.000	2012 S/.000
Deposits in checking accounts	14,383,801	12,052,323
Certified checks	19,935	16,111
Cashier's checks	127,097	95,101
Transfers payable	57,571	51,150
Collections to be liquidated	45	52
	14,588,449	12,214,737

Deposits in checking accounts mainly comprise those made by:

i) Private companies for approximately S/.2,981,004 thousand and US$20,188 thousand (S/.2,769,320 thousand and US$3,362 thousand in 2012).
ii) Local Governments for approximately S/.1,340,647 thousand and US$2,204 thousand (S/.1,409,699 thousand and US$1,895 thousand in 2012).
iii) Regional Governments for approximately S/.1,126,178 thousand and US$10,175 thousand (S/.1,259,476 thousand and US$ 29,964 thousand in 2012).
iv) Ministry of Economy and Finance for S/.1,538,097 thousand and US$38,325 thousand (S/.850,960 thousand and US$22,353 thousand in 2012).
v) Presidency of the Council of Ministers for S/.7,793 thousand and US$38,325 thousand (S/.2,831 thousand and US$1,235 thousand in 2012).
vi) COFIDE for S/.8,571 thousand and US$8,720 thousand (S/.3,757 thousand and US$90,491 thousand in 2012).

Said deposits represent approximately 52% of deposits in checking accounts as of December 31, 2013 (55%, as of December 31, 2012).

(b) Obligations for savings accounts correspond to opened accounts for the payment of salaries and pensions to public-sector workers and pensioners.

(c) Obligations for fixed-term accounts consist of bank certificates, fixed-term deposits and severance indemnity deposits for S/.4,978 thousand; S/.164,588 thousand and S/.66,576 thousand, respectively (S/.4,645 thousand; S/.241,600 thousand and S/.63,818 thousand, respectively as of December 31, 2012).

(d) The balance of other obligations comprises:

	2013 S/.000	2012 S/.000
Social benefits of workers and pensioners	2,016,241	2,097,895
Restricted obligations with the public	2,398,532	2,022,467
	4,414,773	4,120,362

Social benefits of workers and pensioners:

The provision for social benefits represents the obligations assumed for severance rights for active employees, as well as the retirement provision of the Bank's former workers and active workers, subject to the pension regime of Decree Law No. 20530. As of December 31, it comprises:

	2013 S/.000	2012 S/.000
Retirement pensions Decree Law No.20530	2,012,390	2,094,061
Labor Regime Law No.4916	3,719	3,695
Labor Regime Decree Law No.11377	132	139
	2,016,241	2,097,895

Retirement pension Decree Law No.20530

Retirement pensions mainly correspond to the present value of future payments of retirement pensions of the Bank's workers and former workers, subject to Decree Law No.20530.

These are annuities received by pensioners for unemployment, disability, widowhood and orphanage. Pension operations have traditionally been considered within actuarial life operations. However, they have a distinct sense and distinguishing designation, due to the economic importance and the actuarial specialization they require. Considering the particularities of the -pension plan operations, they are defined as operations in which the probable risk coverage period is the whole life of the plan participant.

Supreme Decree No. 043-2003-EF was published in March 28, 2003, in which provisions are established for the registration of government-plan pension-plan obligations of the Pension Regime of Decree Law No.20530 and amendments, for which funding does not come from resources of the Public Treasury. This Decree modifies the Supreme Decree No.106-2002-EF, incorporating in the actuarial calculation of pensions the standards contained in Supreme Decree No.026-2003-EF dated February 27, 2003 and, where applicable, those of the Accounting Resolution No.159-2003-EF/93.01 dated March 6, 2003 and other provisions issued by the General Public Accounting Directorate, for the purpose of registration and control of the pension-plan obligations.

In accordance with article 2 of Supreme Decree No.043-2003-EF, FONAFE will issue the provisions that will regulate the constitution of the necessary funds to finance the pension-plan obligations of the entities and companies under its scope. The Bank does not have assets belonging to the retirement pension plan at the balance sheet date.

The movement in the present value of the retirement provision for pensioners and workers under Decree Law No. 20530 is as follows:

	2013	2012
	S/.000	S/.000
Balance at the beginning of the year	2,094,061	2,174,032
Additions debited to results	98,845	104,801
Provisions, aliquot and charitable fund	3,587	3,834
Payments to pensioners	(184,103)	(188,606)
Balance at the end of the year	2,012,390	2,094,061

The duty for retirement pensions decreased as compared to 2012, mainly due to the reduction in the number of pensioners from 5,941 as of December 31, 2012 to 5,814 pensioners as of December 31, 2013.

Actuarial assumptions

The most important actuarial assumptions at the date of the statement of financial position are as follows:

	2013	2012
Discount rate as of December 31	4.50%	4.50%
Average life period	19 years	20 years
Active service period	0 years	0 years
Pensioners with statutory bonuses	773	778
Pensioners with reward	4,940	5,070
Pensioners with no bonus	101	95
Assets with statutory bonuses	127	144

According to Bank Management, the discount rate of 4.50% is the rate used because the Bank's financial instruments ensure rates of return above 4% for a long-term horizon.

The average period and the active service period have been calculated based on the definition established in Guideline No.20 of a resolution issued by the Peruvian General Accounting Agency ("Contaduría Pública de la Nación") No.159-2003-EF/93.01. An active service period that is equal to zero implies that the active worker is able to become a pensioner immediately.

Mortality tables used in actuarial calculations are those defined as "Mortality tables – SP 2005 (Peruvian)" for own right and right to healthy living condition and mortality tables denominated MI-85-H and MI-85-M in the case of a disabled person, either man or woman, respectively, approved by the Ministry of Economy and Finance through Ministerial Resolution No.757-2006-EF/15 and incorporated in its annex by Ministerial Resolution No.146-2007-EF/15 dated March 23, 2007.

The calculation of pension reserves for pensioners has been made with a maximum amount of pension equivalent to two (2) Applicable Tax Units (equivalent to S/.7,400).

12 DEPOSITS IN FINANCIAL SYSTEM COMPANIES AND INTERNATIONAL FINANCIAL INSTITUTIONS

As of December 31, 2013, it includes sight deposits for S/.101,686 thousand and US$91,482 thousand and savings deposits for S/.937 thousand (sight deposits for S/.123,306 and US$100,893 thousand and savings deposits for S/. 2,357 thousand as of December 31, 2012).

13 PAYABLES

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Suppliers (a)	87,544	62,272
Profit sharing and salaries payable	73,864	61,397
Other payables (b)	30,361	39,729
Contributions to Deposit Insurance Fund	38,942	88,850
Others	117	107
	230,828	252,355

(a) Payables to suppliers mainly include provisions for custody services, fund management and supply of Multired ATM provided by Hermes and Prosegur for S/.12,205 thousand (S/.13,711 thousand as of December 31, 2012), and provisions for other purchases made by the Logistics Department for S/.40,234 (38,022 thousand in 2012) to implement communications equipment, computing center, anti-fraud devices, maintenance, security, remodeling of premises, among others.

(b) Other payables mainly include obligations payable derived from a final judgment against the Bank brought by the Union of Retirees ANPEBAN for S/.7,092 thousand (S/.13,486 thousand at December 31, 2012) and operations carried out through ATMs of other Banks and establishments affiliated to VISA, pending confirmation for S/.5,374 thousand and S/.9,073 thousand, respectively (S/.4,004 thousand and S/.6,883 thousand as of December 31, 2012, respectively).

14 PROVISIONS

As of December 31, this item comprises:

	2013 S/.000	2012 S/.000
Provision for contingent loans:		
Generic provision	11,979	4,934
Specific provision	418	727
	12,397	5,661
Other provisions:		
Provision for litigation and court actions	115,825	85,696
Self-insurance reserve fund	-	2,693
Disaster fund	-	2,529
Contingency for loans	592	592
Provision for unexpected events (Terrorist attack)	-	5,100
	116,417	96,610
	128,814	102,271

The provision for litigation and court actions comprises provisions for work and pension-plan lawsuits and for civil and arbitration proceedings against the Bank for S/.106,740 thousand and S/.9,805 thousand, respectively (S/.73,715 thousand and S/.11,981 thousand, respectively, as of December 31, 2012).

15 OTHER LIABILITIES

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Operations in process	200,898	123,679
Agencies and branches in provinces	1,066	1,661
Cash surplus	2,497	1,124
Deferred income for interest on awarded goods and commissions for contingent transactions/indirect loans	489	1,727
Income for interest and commissions/indirect loans	2,193	-
	207,143	128,191

Operations in process are transactions carried out in the last days of the month, reclassified the next month to their definitive accounts of the statement of financial position. As of December 31, 2013, it mainly includes checks received from other banks pending clearing for S/.132,192 thousand (S/.72,517 thousand as of December 31, 2012).

16 EQUITY

Share capital -

The Bank's authorized capital comprises S/.1,000,000 thousand, wholly subscribed and paid by the Peruvian Government, as established in article 5 of the Bank's by-laws. For the Bank's share capital, neither shares nor securities of any kind are issued.

a) Legal Reserve -

Pursuant to the Peruvian General Banking Law, the legal reserve is required to reach an amount not less than 35% of its share capital. This reserve is made through the annual transfer of at least 10% from its net earnings. The legal reserve at December 31, 2013 and 2012 amounts to S/.350,000 thousand, the minimum amount required by the Peruvian General Banking Law.

b) Retained earnings -

As per the Bank's by-laws, article 40, 50% of the net profit is intended to cover the Bank's authorized capital and the remaining amount goes to the Public Treasury. When the authorized capital is reached, the whole net profit will be allocated to the Public Treasury. At December 31, 2013 and 2012, the Bank's authorized capital is a 100% covered.

In 2013, at Board of Directors Meeting No.1944 dated March 13, 2013, the application was approved of the Bank's net profits for fiscal 2012 in favor of the Public Treasury. S/.677,078 thousand were distributed to the Public Treasury as follows: S/.203,123 thousand for the annual amortization of the Supreme Decree Bonus No.002-2007-EF and the remaining balance of S/.473,955 thousand was credited to the Public Treasury's current account.

In 2012, at Board of Directors Meeting No. 1895 dated March 21, 2012, the application was approved of the Bank's net profits for fiscal 2011 in favor of the Public Treasury. S/.479,285 thousand were distributed to the Public Treasury as follows: S/. 143,786 thousand for the annual amortization as per Supreme Decree Bonus No. 002-2007-EF and the remaining balance of S/.335,499 thousand was credited to the Public Treasury's current account.

17 REGULATORY CAPITAL AND LEGAL LIMITS

The detail of regulatory capital calculated and required as of December 31, 2013 and 2012 is shown below; this is used to calculate certain limits and legal restrictions in accordance with the Peruvian Banking Law.

	2013 S/.000	2012 S/.000
Regulatory capital calculated:		
Regulatory capital level 1		
Paid capital	1,000,000	1,000,000
Legal reserve	350,000	350,000
Donations	1,452	952
Other deductions	(17,791)	(12,156)
	1,333,661	1,338,796
Regulatory capital level 2		
Generic provisions for loans	76,338	66,981
Other deductions	(17,792)	(12,156)
	58,546	54,825
Total regulatory capital calculated (a)	1,392,207	1,393,621
Regulatory capital required:		
By credit risk	603,578	530,631
By market risk	99,647	60,231
By operational risk	175,806	133,450
Sub Total (b)	879,031	724,312
Additional Regulatory capital (*)	121,502	74,577
Total Regulatory capital required (c)	1,000,533	798,889
Surplus Global regulatory capital (a) – (c)	391,674	594,732
Global Capital Ratio (a) / ((b) x 10) (**)	15.84%	19.24%

(*) This corresponds to the requirement of regulatory capital calculated for the components of economic cycle, concentration risk, market concentration risk, interest rate risk in the Banking Book and other risks.

(**) Under the Peruvian General Banking Law, Global Capital Ratio should be equal to or greater than 10%.

As of December 31, 2013, credit risk-rated contingent assets and contingent loans determined by the Bank according to the legislation applicable to financial institutions amounts to S/.6,035,776 thousand (S/.5,306,307 thousand as of December 31, 2012).

As of December 31, 2013 and 2012, Management considers that the Bank has complied with the current regulation.

18 CONTINGENT ACCOUNTS AND OFF-BALANCE SHEET ACCOUNTS

As of December 31 this item comprises:

	2013 S/.000	2012 S/.000
Contingent transactions:		
Indirect loans (a):		
Performance bonds granted	618,205	341,921
Letters of credit	560,879	188,855
	1,179,084	530,776
Unused lines of credit and loans granted but not disbursed	2,900,493	1,258,645
Unresolved litigation and court actions and other contingencies	1,345	1,080
	4,080,922	1,790,501
Off-balance sheet accounts:		
Bad-debts written-off (b)	51,896,836	51,851,669
Own securities under collection	4,420,547	3,393,379
Guarantees received for loan transactions	1,959,358	1,617,931
Interest on loans and stand-by interest (b)	2,467,056	1,592,952
Payment authorization - Public Treasury	1,302,621	1,512,814
Government guarantees on external debt (c)	1,183,939	1,051,783
Portfolio, guarantees and loan transfer MEF/Banco Latino	660,434	850,539
D.U. N° 065-2002 Fixed savings	105,198	89,210
Guarantees received for services	82,265	68,251
Own securities and properties in custody	13,162	12,091
Loans for third- party accounts	-	3,564
Consignments received	619	735
Other off-balance-sheet accounts, debit	783,431	693,834
Other off-balance-sheet accounts, credit	2,960,213	2,194,769
	67,835,679	64,933,521
Trusts (d)	1,252,887	1,248,952
	73,169,488	67,972,974

(a) Indirect loans -

In the ordinary course of its transactions, the Bank performs contingent transactions that expose it to additional credit risks to the amounts recognized in the statement of financial position. The credit risk in contingent transactions is defined as the possibility of a loss, due to one party of the parties to a contingent transaction not complies with the terms of the agreement.

The Bank's credit risk for performance bonds and letters of credit, are represented by the amounts stipulated in the agreement of these instruments. Considering that most of the contingent transactions should reach maturity without the Bank having to respond for these transactions, the total of the contingent operations does not necessarily represent future cash needs for the Bank.

Performance bonds and letters of credits are contingent commitments acquired by the Bank to guarantee compliance of obligations from a client to a third party. Letters of credit are mainly issued as guarantees of trade transactions with external entities. The risks associated with these credits are reduced because they are guaranteed with deposits in guarantees made by the client in the Bank.

(b) Bad debt write offs -

The balance of this item mainly correspond to bad-debts written-off from the portfolio of Ex-Surmeban that could not be sold in the bad-debt auctions called by FONAPE, approved at the Board of Directors Meeting No. 1761 held on June 4, 2009, of S/.51,343 thousand.

(c) Government guarantees on external debt -

Government guarantees and obligations for external debt record operations in which the Bank intervenes as the Government's financial agent for the implementation of loans between Peru and other countries, mainly for bilateral refinancing agreements and Paris Club, as well as financial entities and suppliers under local laws and regulations.

(d) The Bank, as trustee, manages the following trust assets:

Trust assets are not included in the financial statements of the Bank. However, the Bank is responsible for the adequate management of such trusts up to the limit established by applicable law and the respective agreements.

	2013 S/.000	2012 S/.000
Equity trust fund No.036-2000 and RM 099-2000-EF/10	598,860	525,675
MINDES - FONCODES-BN Trust	178,938	171,201
Arequipa Regional Government - Majes II	93,092	120,673
Olmos Tinajones	4,951	108,496
SEDAPAR Pampa Escalerilla	13,329	58,368
D.U. Fiduciary Trust No.034-99	53,567	47,996
EMPSSAPAL Trust	47,089	45,719
Loreto Regional Government - PAFE III	24,575	43,503
Cajamarca Regional Government- Agua Potable y Alcantarillado	78,573	40,068
Loreto Regional Government - Banco de la Nación	35,829	17,810
Urban Transport MML-BIRF-BID	11,536	15,002
SEDACUSCO - BN	2,128	11,912
Cajamarca Regional Government- PAFE III	40,462	9,657
Peruvian navy RM-307-2006-EF/75 Trust	-	7,796
Peruvian navy - MEF	-	4,673
Colcabamba Municipality	-	4,183
PMRI I EPS Chavín S.A.	482	3,095
Gore Callao Nuevo Gambeta Project	-	2,781
PMRI I EPS Moquegua S.A.	1,573	2,286
PMRI I MAPA Huaral S.A.	1,183	1,903
PMRI I SEDA Huánuco S.A.	576	1,869
Cuzco Regional Government - COPESCO plan Trust	-	1,049
Ministry of Energy and Mines UGP FONER CF	-	272
Armed Forces Fund	-	245
Cuzco Regional Government Trust - Plan Meriss	-	98
EPS SEDA LORETO-BN Trust	-	88
FINVER Cañete Cañete Provincial Municipality	53,223	-
EPS-SEDACAJAMARCA - BN	4,645	-
Sist. Gestión Solidos Moyobamba Otros	3,749	-
Sist. Gestión Resid. Solidos Ciudad San Juan Bautista	1,840	-
PMRI I EPS Sierra Central S.R.Ltda.	1,070	-
PMRI I Cañete S.A.	541	-
PMRI I EPS Selva Central S.A.	407	-
Ministry of Justice DDHH-BN	336	-
Others	333	2,534
	1,252,887	1,248,952

Assets held in trust are not included in the Bank's financial statements. However, the Bank is responsible for the adequate management of said trusts up to the limit established by applicable law and the respective agreements.

19 INCOME AND EXPENSES FOR FINANCIAL SERVICES

a) Income for financial services for the years ended December 31, 2013 and 2012 comprises:

	2013 S/.000	2012 S/.000
Income from cash management (a)	317,107	298,862
Income from transfer services (b)	61,795	75,966
Income from services of tax collection	54,396	40,897
Income from ATMs - Multired	29,963	35,490
Income from credit and debit card commissions	28,542	24,492
Income from insurance sale commissions	15,041	19,914
Income from savings accounts – Commission on Credit Notes	19,787	18,946
Income from savings accounts – Commission on withdrawal of credit Notes	14,193	12,454
Income from – checks received of other banks – Clearing	10,438	9,933
Services for shared premises	7,206	8,718
Income for collections	9,784	7,670
Income from commission on new Multired card	7,641	7,272
Income for contingent operations	4,596	3,480
Others (c)	46,769	34,009
	627,258	598,103

(a) Income from cash management mainly comprises commissions for the management of the funds collected by the Bank on behalf of the Public Treasury (General Treasury Directorate) for S/.287,827 thousand; correspondent bank services for S/.25,396 thousand and ATM services for S/.3,884 thousand (S/.274,374 thousand, S/.20,292 thousand and S/.4,296 thousand, respectively in 2012).

(b) Income from transfer services mainly corresponds to commissions for the service of transfer of funds for S/.11,327 thousand, tele-money order system for S/.29,579 thousand and tele-money order correspondent service for S/.20,889 thousand (S/.10,573 thousand, S/.37,224 thousand and S/.28,169 thousand, respectively for 2012).

(c) Other income from financial services mainly comprises commissions on checks received of different banks of S/.10,439 thousand (S/.9,933 thousand in 2012), commissions on issue of new Multired debit cards for S/.7,641 thousand (7,272 thousand in 2012), commissions on services to ONP for S/.6,571 thousand (S/.5,937 thousand in 2012), commissions on social services program for S/.9,557 thousand (S/.5,509 thousand in 2012), commissions on interbank transfers for S/.4,773 thousand (S/.4,010 in 2012), other commissions on checking and saving accounts for S/.7,788 thousand (S/.1,348 thousand in 2012), among others.

(d) Expenses for financial services for the year ended December 31, 2013 and 2012 comprise:

	2013 S/.000	2012 S/.000
Other financial services	67,193	57,927
Credit and debit cards	10,659	8,764
Other minor expenses	4,432	3,042
	82,284	69,733

20 PERSONNEL AND BOARD EXPENSES

Personnel and board expenses for the years ending December 31 comprise:

	2013 S/.000	2012 S/.000
Basic	205,379	205,525
Retirement	98,845	104,801
Allowances	60,961	52,320
Statutory bonuses	42,697	42,091
Workers' profit sharing	27,152	28,200
Severance indemnities	22,487	22,665
Insurance and social welfare	20,993	21,259
Other expenses	57,500	56,094
	536,014	532,955
Remuneration of Key management and directors		
Remuneration and other short-term services	539	451
Bonuses	505	492

21 EXPENSES FOR THIRD-PARTY SERVICES

Expenses for third-party services for the years ending December 31 comprise:

	2013 S/.000	2012 S/.000
Other services	74,804	74,106
Repair, maintenance and cleaning services	35,429	29,759
Communications	26,208	20,524
Insurance	23,740	21,623
Surveillance and protection	21,860	15,291
Leases	17,924	14,409
Advertising, events and others	14,715	5,674
Other supplies	8,894	9,099
Other service expenses	19,296	18,195
	242,870	208,680

22 PROVISIONS, DEPRECIATION AND AMORTIZATION

This item comprises:

	2013 S/.000	2012 S/.000
Difference of property, furniture and equipment	38,680	38,813
Amortization of intangible	8,693	8,933
	47,373	47,746
Provisions for litigation and court actions	43,816	17,843
(Recovery) provisions for doubtful receivables	(9,148)	11,305
Provision for contingent loans	6,402	3,279
Others	391	549
	41,461	32,976
	88,834	80,722

Provisions for litigations and court actions comprise provisions for labor-related lawsuits for S/.43,800 thousand and civil lawsuits amounting to S/.6 thousand (provisions for labor-related lawsuits amounted to S/.17,002 thousand and civil lawsuits amounted to S/.841 thousand in 2012).

23 OTHER INCOME AND EXPENSES, NET

Other income and expenses, net, comprises:

	2013 S/.000	2012 S/.000
Other income:		
Reversal of provision for litigations and court actions	8,182	23,538
Tax refund (a)	-	57,701
Claims - incidents	5,480	-
Income from leases	1,988	1,356
Recognition of interest on goods	1,239	-
Commissions (insurance)	1,086	2,139
Others	3,648	9,524
	21,623	94,258
Other expenses:		
Administrative and Fiscal penalties	(1,348)	(78)
Loss not covered by insurance	(1,019)	-
Donations made	(881)	(1,665)
Result of income tax assessment	(6,469)	-
Depreciation for obsolescence	(2,924)	(92)
Net expenses to recover loans	(936)	(4,639)
	(13,577)	(6,474)
Other income, net	8,046	87,784

(a) In March 2012, Peruvian tax authorities accepted the income tax refund request for fiscal 2006 submitted by the Bank for a total of S/.57,701 thousand, which mainly consisted of principal for S/.41,906 thousand plus interest for S/.15,795 thousand, according to Resolution No. 012-180-0004372/SUNAT.

24 TAX SITUATION

a) Fiscal 2006, 2008, 2009, 2011, 2012 and 2013 are open for audit by the Peruvian tax authorities; except for fiscal 2007 which is currently under audit. During fiscal 2013 and 2012, the Bank has applied for tax refunds for fiscal years 2008 and 2007 to the Peruvian Tax Authorities, respectively.

Any additional tax, late interest and other expenses, if any, will be charged to the results of the years in which the difference of interpretation with the Tax Administration is resolved. Management considers that no significant liabilities will arise as a result of these possible tax audits.

As established under Peruvian laws, income tax of legal entities is determined for fiscal 2013 and 2012 at a 30% rate on their net taxable profit.

The Bank has determined income tax for the year ended December 31, 2013 for S/.154,768 thousand (S/.160,740 thousand as of December 31, 2012).

	2013 S/.000	2012 S/.000
Profit before income tax	725,027	835,104
Plus:		
Non – accepted expenses	325,661	317,206
Less:		
Prior-year tax-exempt and taxed income	(535,852)	(616,512)
Taxable income – Peruvian source	514,836	535,798
Taxable income – Foreign source	1,057	-
Taxable income	515,893	535,798
Current income tax	154,768	160,740

b) Effective 2005, a Temporary Tax on Net Assets has been established, the tax basis of which is the carrying amount of the net assets adjusted at the close of the period prior to when payment is due, after deducting depreciations, amortizations.

Tax rate is 0.4% for fiscal 2013 and 2012 applicable over amount of assets exceeding S/.1,000 thousand. That tax can be settled in cash or in nine consecutive monthly installments. The paid amount can be used against the income tax on-account payments made under the general regime for the tax periods from March to December of the fiscal year in which that tax was settled until the due date of each of the income tax on-account payments and against income tax regularization payments made for the same tax year. The Bank has calculated the Temporary Tax on Net Assets for 2013 at S/.97,475 thousand (S/.91,454 thousand in 2012).

A tax refund can be requested if tax losses are demonstrably incurred or a lower income tax payment had been determined.

c) Since 2010, capital gains are subject to income tax. In this regard, the tax expense of securities, among others, the disposal of which was tax-exempt until December 31, 2009 since they were traded in the stock exchange will be the higher of: (i) market value at December 31, 2009, or (ii) the acquisition cost; or (iii) the initial entry value in equity, as per the procedure contained in Supreme Decree No 011-2010-EF. This rule is applicable to legal entities when securities are disposed of inside or outside of a centralized trading mechanism in Peru.

On the other hand, with effect from January 1, 2010, interest and capital gains on bonds issued by the Republic of Peru are only tax-exempt: (i) within the Framework of Supreme Decree No.007-2002-EF, (ii) under the program of market creators ("Programa de Creadores de Mercado") or superseding mechanisms; or (iii) in the international market with effect from 2002, as well as interest and capital gains derived from obligations of the Banco Central de Reserva del Perú, except for the legal reserve deposits made by lending institutions; and those derived from direct or indirect disposal of securities comprising or underlying the Exchange Traded Fund (ETF), reflecting indexes based on local investment instruments, when said disposal is carried out for the establishment, cancellation or management of the ETF portfolio.

d) Furthermore, the income tax withholding rate of 15% is applicable to technical assistance rendered by non-domiciled entities, regardless of the place in which the service is performed as long as the Income Tax law requirements are met.

e) As of December 31, 2013 and 2012, the rate of the tax on financial transactions has been set at 0.005% and it is applied to the credits and debits in bank accounts or movements of funds through the financial system, except for those operations specifically exempted.

f) The income tax expense stated in results comprises:

	2013 S/.000	2012 S/.000
Current	154,768	160,740
Deferred	(19,088)	5,560
	135,680	166,300

g) Reconciliation of the income tax effective rate with the tax rate is as follows:

	2013 S/.000	2013 %	2012 S/.000	2012 %
Profit before income tax	725,027	100.00	835,104	100.00
Income tax calculated at theoretical rate	217,508	30.00	250,531	30.00
Tax effect on additions and deductions for permanent differences	(81,828)	(11.29)	(84,231)	(10.09)
Current and deferred income tax stated at effective rate	135,680	18.71	166,300	19.91

25 DEFERRED INCOME TAX

The Bank applied the liability method for the determination of deferred income tax as of December 31, 2013 and 2012.

Movement on deferred income tax net asset and the underlying items is as follows:

	Balance as of 31/12/2012 S/.000	Adjust-ments S/.000	Equity S/.000	Results S/.000	Balances as of 31/12/2013 S/.000
Temporary differences asset					
Provision for litigation and court actions	25,709	-	-	9,039	34,748
Generic provision for direct loans	34,262	-	-	6,410	40,672
Provision for impairment of properties	9,746	-	-	(150)	9,596
Provision for vacation leave	5,863	-	-	179	6,042
Generic provision for contingent loans	1,480	-	-	2,114	3,594
Specific provision for contingent loans	218	-	-	(93)	125
Others	9,379	592	-	2,840	12,811
Liabilities					
Unrealized earnings	(20,939)		32,056		11,117
Depreciation of properties	(1,366)	(2,965)	-	(1,250)	(5,581)
Total deferred asset	64,352	(2,373)	32,056	19,088	113,123

	Balance as of 31/12/2012 S/.000	Adjust-ments S/.000	Equity S/.000	Results S/.000	Balances as of 31/12/2013 S/.000
Temporary differences asset					
Provision for litigation and legal court actions	29,291	-	-	(3,582)	25,709
Generic provision for direct loans	32,044	-	-	2,218	34,262
Provision for impairment of properties	9,746	-	-	-	9,746
Provision for vacation leave	5,623	-	-	240	5,863
Generic provision for contingent loans	2,112	-	-	(632)	1,480
Specific provision for contingent loans	-	-	-	218	218
Others	13,897	263	-	(4,781)	9,379
Liabilities					
Unrealized earnings	(2,774)		(18,165)	-	(20,939)
Depreciation of properties	(1,366)	(759)	-	759	(1,366)
Total deferred assets	88,573	(496)	(18,165)	(5,560)	64,352

In 2013, the charge to profit or loss for deferred income tax is S/.19,088 thousand (a charge of S/.5,560 thousand in 2012).

As of December 31, 2013 and 2012, the Bank shows the deferred income tax resulting from unrealized earnings on available-for-sale financial assets, net.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged purchase and a seller properly informed, or a liability may be settled between a debtor and a creditor with sufficient information, in an arm's length transaction.

When a financial instrument is traded in an active and liquid market, its estimated market price in an actual transaction provides evidence of its fair value. Fair value is not the amount that the Bank may receive or settle in a forced transaction, in an involuntary liquidation or in the case of financial difficulties.

The methodologies and assumptions used depend on the terms and risks characteristic of the different financial instruments which include the following:

- Cash on hand and inter-bank funds represent cash and short-term deposits that do not represent to be a significant credit risk. Therefore, their carrying amount is similar to their fair value.
- Fair value of available-for-sale financial assets (debt and equity financial instruments) are valued and recorded at market value, as a result of which their carrying amount is equal to their market value.
- In the case of held-to-maturity financial assets that do not have a market value due to their non-negotiable status, they are recorded at amortized cost.
- The carrying amounts of loans are affected by the establishment of generic and specific provisions. Management has not determined market values for loans because it considers that the net carrying amount for loans is lower than their market value and is considered as the best estimate of the amount to be recovered at the date of the financial statements.
- Financial obligations accrue interest at variable and preferential rates, considering that their carrying amounts are similar to their corresponding market values.
- The Bank performs various contingent transactions such as granting guarantees, standby letters, letters of credit and others. These transactions expose it to additional credit risks to the amounts recognized in the financial statements. Based on the level of commissions actually charged for the approval of such contingent credits and taking into consideration the maturity and interest rates, together with the current solvency of the counterparties, the difference between the carrying amount and fair value is not material. Due to the uncertainty regarding valuation, likelihood and timing of their execution and the lack of a specific market, the Bank considers it is not feasible to determine the estimated fair value of guarantees granted.
- Management considers that the fair values of the Bank's financial instruments do not significantly differ from their carrying amounts.

Fair value and carrying amount	Year 2013 Carrying amount	Year 2013 Fair value	Year 2012 Carrying amount	Year 2012 Fair value
Assets				
Cash in hand	12,313,290	12,313,290	12,717,701	12,717,701
Available-for-sale financial assets				
Equity instruments	35,584	35,584	24,653	24,653
Debt instruments	5,107,681	5,107,681	3,168,650	3,168,650
Country risk	(1,012)	(1,012)	(426)	(426)
Held-to-maturity financial assets	1,542,531	1,542,531	1,745,722	1,745,722
Loan portfolio	6,943,890	6,943,890	5,587,425	5,587,425
Receivables	382,988	382,988	283,240	283,240
Other assets	153,630	153,630	85,268	85,268
Total	26,478,582	26,478,582	23,612,233	23,612,233
Liabilities				
Borrowings with the public	22,287,198	22,287,198	19,290,953	19,290,953
Deposits by entities in the financial system and international financial organizations	358,315	358,315	382,940	382,940
Payables	230,828	230,828	163,505	163,505
Total	22,876,341	22,876,341	19,837,398	19,837,398

The table below analyses the financial instruments carried at fair value, by the valuation method. The different levels of definition of fair value have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The table below shows the Bank's financial assets that are measured at fair value in the statement of financial position at December 31, 2013 and 2012:

	Level 1 S/.000	**Level 2 S/.000**	**Total S/.000**
As of December 31, 2013:			
Assets			
Cash in hand	12,313,290	-	12,313,290
Available-for-sale financial assets	5,142,253	-	5,142,253
Held-to-maturity financial assets	-	1,542,531	1,542,531
Total assets	17,455,543	1,542,531	18,998,074
As of December 31, 2012:			
Assets			
Cash in hand	12,717,701	-	12,717,701
Available-for-sale financial assets	3,192,877	-	3,192,877
Held-to-maturity financial assets	-	1,745,722	1,745,722
Total assets	15,910,578	1,745,722	17,656,300

During 2013 and 2012 no transfers were carried out between levels 1 and 2.

The fair values of financial instruments traded in active markets are based on the quoted prices at the date of the statement of financial position. A market is considered active if the quoted prices are regularly available in the stock market, trader, brokers and represent real and regular transactions on an arm's length basis.

Quotes used for financial assets held by the Bank are the effective bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on the Bank's specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealers' quotes for similar instruments.

27 CONTINGENCIES

As of December 31, 2013, the Bank has several labor and civil litigations currently in process relating to its business activities amounting to S/.132 million for which provisions have not been made due to the opinion of legal counsel in charge of these lawsuits that they correspond to remote and/or possible contingencies.

28 FINANCIAL RISK MANAGEMENT

By the nature of its activities the Bank' is exposed to a variety of financial risks: credit risk, interest rate risk, liquidity risk, exchange rate risk and operational risks, which are managed through a continuous process of identifying, measuring and monitoring, based on risk limits and other controls. The Bank's overall risk management program focuses on credit risk and the Bank seeks to minimize its potential adverse effects on the Bank's financial performance.

Structure and organization of the risk management function.

The Bank's risk management is framed within the scope of the Rules for Comprehensive Risk Management ("Reglamento de Gestión Integral de Riesgos" – SBS Resolution No.037-2008), which is carried out with the full involvement of Executive Management implementing an adequate internal environment, specifically through the Risk Committee and Risk Department, which facilitates and integrates risk management with other departments of the Bank in order to maintain the expected risk profile; taking actions to assist them in actually meeting the business targets and strategic objectives of the Bank.

The Bank's Organization and Function Rules determine the functions of the department in relation to Overall Risk Management and particularly the Risk Department's function; additionally, the Bank has rules for the Risk Committee as required by the SBS provisions and internal risk management policies. The Risk Committee depends on the Board and it has a Board member, who chairs the Committee. This member's functions include approving objectives, guidelines, policies, procedures and methodologies to identify and manage risks, among others. The Risk Department depends on General Management and is considered as a support organ for risk management. Its principal functions include: proposing adequate policies, procedures and methodologies for Comprehensive Risk Management in the Bank, among others.

Risk coverage and mitigation policies.

The Bank maintains policies for risk management which include coverage and mitigation policies based on the risk management rules. Thus, the Bank has policies to manage credit, operational, market, liquidity and country risk. The Bank also has specialized committees which are informed regarding the Bank's management of each of the risks to which it is exposed.

The Bank maintains policies and procedures to avoid excessive credit risk concentration.

The Bank has policies in place that include procedures to manage excessive risk concentration for assets as well as liabilities. The Bank follows up on certain indicators that are reported to the SBS through Exhibits and Reports such as Report 13 "Control of global and individual limits" and Exhibit 16 A "Liquidity Table per maturity periods – Indicators". It should be noted that this information is reported to the Risk Committee in order to carry out periodic follow-up.

The table below shows credit concentration per type of counterparty and financial assets per geographical location:

	2013		2012	
	S/.000	%	S/.000	%
Personal loans	3,188,551	45	2,853,895	50
Public management and defense	2,467,823	35	1,896,671	33
Financial intermediation	1,141,735	16	809,139	14
Mining	197,500	3	91,800	2
Residential mortgages	103,971	1	72,486	1
Transportation, storage and communication	3,100	-	2,976	-
Other activities related to community services	1,856	-	1,826	-
Manufacturing industry	1,581	-	1,568	-
Others	50	-	51	-
Trade	12	-	12	-
	7,106,179	100	5,730,424	100

	Financial instruments assets				Financial instruments liabilities	
	Loans and receivables	Available-for sale	Held to maturity	Total	Loans	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
2013						
Peru	19,554,827	5,018,086	1,542,531	26,115,444	23,199,422	23,199,422
United States	34,608	8,247	-	42,855	-	-
Chile	-	40,884	-	40,884	-	-
Colombia	-	14,543	-	14,543	-	-
Brazil	-	19,935	-	19,935	-	-
Mexico	-	5,737	-	5,737	-	-
Panama	-	35,833	-	35,833	-	-
England	33,683	-	-	33,683	-	-
Germany	29,753	-	-	29,753	-	-
Other countries	5,343	-	-	5,343	-	-
Country risk	-	(1,012)	-	(1,012)	-	-
Total	19,658,214	5,142,253	1,542,531	26,342,998	23,199,422	23,199,422

	Financial instruments assets				Financial instruments liabilities	
	Loans and receivables	Available-for sale	Held to maturity	Total	Loans	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
2012						
Peru	18,316,687	3,135,398	1,745,722	23,197,807	20,149,322	20,149,322
United States	66,941	-	-	66,941	-	-
Chile	-	15,481	-	15,481	-	-
Colombia	-	18,112	-	18,112	-	-
Panama	-	24,312	-	24,312	-	-
Germany	158,738	-	-	158,738	-	-
Other countries	17,060	-	-	17,060	-	-
Country risk	-	(426)	-	(426)	-	-
Total	18,559,426	3,192,877	1,745,722	23,498,025	20,149,322	20,149,322

Measurement systems and risk reports.

The Bank has different measurement systems in place depending on the type of risk being assessed; for market risk, it uses the Value at risk (VaR) methodology to assess the exchange and interest rate risks. For the credit risk, on the other hand, the assessment is based on the application of its respective policies, performance of harvest analysis, among others. For Operational risk management, it applies the COSO-ERM methodology.

Information on market, credit and operational risk management is provided through the generation of reports that are submitted both to the SBS as well as the specialized committees of the Bank (Risk Committee, Asset and Liability Committee, Credit Committee).

Credit risk

The Bank, acting as a financial intermediary, grants loans to customers, mainly workers and pensioners of the Public Sector, as well as Local and Regional Governments and Financial Institutions (Caja Rural, Municipalities and small businesses "Edpymes") as well as other entities in the public sector. Loans are mainly granted to Workers and Pensioners of the Public Sector representing 28% of the total direct and indirect loans granted, approximately S/.11,147,593 thousand at December 31, 2013 (S/.7,485,424 thousand at December 31, 2012).

In the Bank, Credit risk is managed assessing and analyzing individual transactions. In 2013 the principal component of the loan portfolio was individual loans for workers and pensioners of the Public Sector which have a low credit risk because their salaries are paid to them through deposits in accounts with the Bank. A portfolio analysis is disclosed in Note 7. Information regarding deposits and other obligations is disclosed in Note 11.

Also, the Bank manages the credit risk through periodic reviews and the formal analysis of individual transactions of the loan portfolio. For this purpose, an assessment is performed of the debtor's financial condition, financial analysis and guarantee requirements.

Risk management also follows up on individual risk concentrations, by industry, type of asset and exchange rate credit risk.

The table below shows the maximum exposure to credit risk:

	As of December 31,	
	2013	2012
	S/.000	S/.000
Cash in hand	12,313,314	12,718,009
Available-for-sale financial assets	571,081	303,584
Held-to-maturity financial assets	1,542,531	1,745,722
Loan portfolio	11,158,624	7,470,720
Receivables	382,988	283,240
Other assets	614,254	651,479
Total	26,582,791	23,172,754

Note: Net exposures have been taken into consideration.

The table below shows the analysis of direct and indirect loans based on credit ratings but not including accrued interest:

	Non-retail loans	Loans for Small and micro businesses	Individual loans	Mortgages	Total	Percen-tage
	S/.000	S/.000	S/.000	S/.000	S/.000	%
Year 2013						
Current and unimpaired loans						
Standard	4,944,323	1	3,085,119	103,350	8,132,792	100.74
	4,944,323	1	3,085,119	103,350	8,132,792	100.74
Past due loans – not impaired						
PP	-	-	19,904	121	20,025	0.25
	-	-	19,904	121	20,025	0.25
Impaired loans						
Substandard	-	-	13,857	92	13,949	0.17
Doubtful	41,820	-	41,500	315	83,635	1.04
Loss	5,995	603	27,934	93	34,626	0.43
	47,815	603	83,291	500	132,210	1.64
Portfolio - gross	4,992,138	604	3,188,314	103,971	8,285,027	102.63
Less provisions	(60,270)	(603)	(150,031)	(1,309)	(212,213)	2.63
Total net	4,931,868	1	3,038,283	102,662	8,072,814	100.00
Year 2012						
Current and unimpaired loans						
Normal	3,255,730	5	2,754,559	72,641	6,082,935	100.03
	3,255,730	5	2,754,559	72,641	6,082,935	100.03
Past due loans – not impaired						
WPP	-	-	17,570	270	17,840	0.29
	-	-	17,570	270	17,840	0.29
Impaired loans						
Substandard	-	-	14,978	219	15,197	0.25
Doubtful	72,656	-	42,298	57	115,011	1.89
Loss	5,846	582	24,355	96	30,879	0.51
	78,502	582	81,631	372	161,087	2.65
Portfolio - gross	3,334,232	587	2,853,760	73,283	6,261,862	102.97
Less provisions	(42,280)	(582)	(137,052)	(906)	(180,820)	2.97
Total net	3,291,952	5	2,716,708	72,377	6,081,042	100.00

Days	2013 Consumer loan, non-revolving S/.000	2013 Mortgage S/.000	2013 Total S/.000	2012 Consumer loan, non-revolving S/.000	2012 Mortgage S/.000	2012 Total S/.000
16 – 30	20,900,248	124,463	21,024,711	18,450,129	276,776	18,726,905

Liquidity risk

The Bank has an internal model which is based on expected maturities and the use of methodological assumptions for asset and liability account balances. Therefore, for asset accounts, expected cash flows from financial assets and loans are taken into consideration and distribution criteria are assumed for receivables.

For liability accounts with uncertain maturity the amended methodology of the Maximum Probable Withdrawals ("Máximos Retiros Probables Modificada") is applied, which is based on the review of historical data of accounts and the volatility of their variations to estimate their expected maturity. Also, for accounts payable certain criteria are assumed for their distribution and for the remaining liabilities, their cash flows are distributed according to their contractual maturity.

Liquidity risk exposure	On demand S/.000	Up to 1 month S/.000	Over 1 and up to 3 months S/.000	Over 3 and up to 12 months S/.000	Over 1 year S/.000	Total S/.000
Liabilities						
Obligations with the public	790 499	447,224	1,035,947	1,228,378	20,801,391	24,303,439
Deposits of financial system entities and international financial institutions	-	78 311	56,235	-	223,769	358,315
Accounts payable	-	76,597	47,455	57,738	49,038	230,828
Other liabilities	1	207,115	1	1	25	207,143
Total	790,500	809,247	1,139,638	1,286,117	21,074,223	25,099,725
2012						
Liabilities						
Obligations with the public	-	4,889,572	1,791,171	7,544,879	6,862,766	21,088,388
Deposits of financial system entities and international financial institutions	-	382,940	-	-	-	382,940
Accounts payable	-	101,830	13,861	93,768	42,896	252,355
Other liabilities	-	79,626	5,370	22,620	20,575	128,191
Total	-	5,453,968	1,810,402	7,661,267	6,926,237	21,851,874

Market risk

Market risk comprises the Foreign exchange risk and the Interest Rate Risk. The Bank manages market risk within the framework of a defined model.

Interest rate risk

Apart from the regulatory models, the Bank manages its interest rate risk using its internally-developed models both for the Trading Book and for Banking Book. For the case of the investment portfolio, the model makes simulations using the Monte Carlo Method seeking to capture the uncertainty (interest rate sensitivity) that may impact the interest rates during the periods in which the receipt of coupons and/or amortizations is expected. The method used is the VaR (Value at risk) with a level of confidence of 95% which is calculated for a period of 10 days for the Bank's entire non-structural Trading Book.

It should be noted that this methodology has no impact on the capital requirements or business margin since these are models for internal business performance management.

With respect to the Banking Book; in addition to the regulatory indicators of profit at risk (GER, the Spanish acronym) and Equity at risk (VPR), the Bank also has internally-developed models to manage said indicators. The model makes simulations using the Monte Carlo Method seeking to capture the impact of variations in interest rates on the structure of the Bank's balance sheet. The most representative asset and liability balances are included in the simulation to observe how they are impacted by changes in interest rates on the financial margin and Regulatory Capital of the Bank.

The method used is the VaR (Value at risk) with a level of confidence of 95% and calculated on a monthly basis.

It should be noted that this methodology has no impact on the capital requirements (regulatory capital) or the business margin of the company, since they are models used for internal management of the Bank's financial performance but are neither approved nor required by the SBS.

Exposure to Market Risk Interest rate risk	Up to 1 month S/.000	From 1 to 2 months S/.000	From 2 to 3 months S/.000	From 3 to 6 months S/.000	From 6 to 12 months S/.000	Over 12 months S/.000	Not interest bearing S/.000	Total S/.000
Year 2013								
ASSETS								
Cash in hand	11,325,501	-	-	-	4	564	-	11,326,069
Available-for-sale and held-to-maturity financial assets	2,815	3,512	577	61,976	822	2,008,076	-	2,077,778
Current loans	367,844	272,337	313,133	868,964	1,126,864	4,118,874	-	7,068,016
Receivables from Trust	-	-	-	-	-	274,020	-	274,020
TOTAL ASSETS	11,696,160	275,849	313,710	930,940	1,127,690	6,401,534	-	20,745,883
LIABILITIES								
Borrowings with the Public	6,362,337	1,526,628	1,864,367	2,495,896	3,926,379	5,640,944	-	21,816,551
Deposits by Financial system entities and international financial institutions	358,315	-	-	-	-	-	-	358,315
TOTAL LIABILITIES	6,720,652	1,526,628	1,864,367	2,495,896	3,926,379	5,640,944	-	22,174,866
Margin gap	4,975,508	(1,250,779)	(1,550,657)	(1,564,956)	(2,798,689)	760,590	-	(1,428,983)
Accumulated gap	4,975,508	3,724,729	2,174,072	609,116	(2,189,573)	(1,428,983)	(1,428,983)	(1,428,983)
Year 2012								
ASSETS								
Cash in hand	9,574,688	-	1,008,000	500,000	500,266	175	-	11,583,129
Available-for-sale and held-to-maturity financial assets	3,582	749	153	60,965	12,995	1,947,457	-	2,025,901
Current loans	210,142	122,929	224,489	543,837	1,049,554	3,545,052	-	5,696,003
Receivables from Trust	-	-	-	-	-	250,002	-	250,002
TOTAL ASSETS	9,788,412	123,678	1,232,642	1,104,802	1,562,815	5,742,686	-	19,555,035
LIABILITIES								
Borrowings with the Public	5,103,333	1,714,931	1,483,465	1,876,932	3,236,865	5,561,886	-	18,977,412
Deposits from local financial institutions and international financial institutions	382,941	-	-	-	-	-	-	382 941
TOTAL LIABILITIES	5,486,274	1,714,931	1,483,465	1,876,932	3,236,865	5,561,886	-	19,360,353
Margin gap	4,302,138	(1,591,253)	(250,823)	(772,130)	(1,674,050)	180,800	-	194,682
Accumulated gap	4,302,138	2,710,885	2,460,062	1,687,932	13,882	194,682	194,682	194,682

Foreign exchange risk

The Bank has its own internal model for managing this risk, which seeks to monitor the changes that may occur in both the balance sheet asset and liability accounts denominated in foreign currency (currencies other that the Peruvian Nuevo sol) and their impact on the Bank's regulatory capital.

The method used is VaR (Value at risk) with a level of confidence of 99% that is calculated on a daily basis.

It should be noted that this methodology has no impact on the capital requirements (regulatory capital) or the business margin, which are models used for internal management of the Bank's financial performance but are neither approved nor required by the SBS.

The Bank enters into transactions in foreign currency basically in United States dollars, mainly related to financing activities ; accordingly, it is exposed to the risk of fluctuations in Exchange rates.

The general balance sheets include foreign currency transaction balances, mostly in U.S. dollars (US$), which are recorded at the exchange rate of new Peruvian soles (S/.) established by the Peruvian banking and insurance regulator (SBS). As of December 31, 2013 and 2012, the exchange rate was US$1 = S/.2.795 and S/.2.550, respectively.

Foreign currency transactions in Peru and foreign trade transactions as authorized by the Central Reserve Bank of Peru are channeled via the banking open market. As of December 31, 2013, buying and selling exchange rates used were US$1= S/.2.794 and US$1= S/.2.796, respectively (US$ 1= S/.2.549 and US$1= S/.2.551, buying and selling, respectively, at December 31, 2012).

Balances in foreign currency in thousands of U.S. dollars as of December 31 are summarized as follows:

Exposure to market risk Exchange rate risk	2013 US dollars S/.000	 New Peruvian soles S/.000	 Other currencies S/.000	 Total S/.000	2012 US dollars S/.000	 New Peruvian soles S/.000	 Other currencies S/.000	 Total S/.000
MONETARY ASSETS								
Cash in hand	329,124	11,875,287	108,879	12,313,290	774,813	11,734,631	208,258	12,717,702
Held-to-Maturity and held-for-trading	1,248,962	5,278,995	156,827	6,684,784	489,663	4,425,951	22,985	4,938,599
Loans	20,815	6,923,075	-	6,943,890	312,985	5,274,440	-	5,587,425
Receivables	253,959	129,028	-	382,987	237,710	45,340	190	283,240
Other assets	27,073	216,183	2	243,258	7,941	90,207	-	98,148
TOTAL MONETARY ASSETS	1,879,933	24,422,568	265,708	26,568,209	1,823,112	21,570,569	231,433	23,625,114
MONETARY LIABILITIES								
Borrowings with the public	1,588,750	22,455,420	259,269	24,303,439	1,566,732	19,296,722	224,935	21,088,389
Deposit from financial institutions	255,664	102,623	28	358,315	257,252	125,663	25	382,940
Payables	753	230,039	36	230,828	689	251,662	4	252,355
Provisions	11,925	116,865	24	128,814	12,281	89,990	-	102,271
Other liabilities	30,986	175,854	303	207,143	35,221	92,314	656	128,191
TOTAL MONETARY LIABILITIES	1,888,078	23,080,801	259,660	25,228,539	1,872,175	19,856,351	225,620	21,954,146
MONETARY POSITION, NET	(8,145)	1,341,767	6,048	1,339,670	(49,063)	1,714,218	5,813	1,670,968

The table below shows the sensitivity in the results of fiscal years 2013 and 2012 if the United States dollar had devalued/revalued by 5% (which is considered a reasonable variation) against the new Peruvian sol, assuming all other variables remained constant.

Years	Revaluation/devaluation of exchange rate	Results for the period before income tax S/.000
2013	+5%	2,471
	- 5%	(2,471)
2012	+5%	2,753
	- 5%	(2,753)

Operational risk

Operational risk management is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commision) methodology. Since 2012, adjustments and restructurings have been made to the Operational Risk Control Unit following the criteria set forth by the Peruvian banking regulator, SBS under SBS Resolution No. 2116-2009 "Reglamento para la Gestión de Riesgo Operacional". As part of this, the Operational Risk Matrix (and the definition of the controls in said matrix) was re-designed and the controls over such matrix were defined, based on qualitative ranges of the levels of probability and impact and the identification of inherent risks by unit, service and department of the Bank.

Additionally, a methodology has been designed for the program to encourage good operational risk practices, as established in Resolution SBS No. 2116-2009.

The management of the information security risk is carried out by the Operational Risk Division - Information Security ("División Riesgos de Operación - Seguridad de la Información"), which is charged with adequately safeguarding and protecting the confidentiality, integrity and availability of the information assets which support the Bank's products and services.

Business Continuity Management

The business continuity policies implemented by the Bank establish the basic principles and necessary framework to guarantee that the business will continue operating in a reasonable manner in the event of any disruption or instability due to the occurrence of internal or external events.

Management of business continuity has to be consistent with the policies and procedures in place for risk management which is governed by the standards set by "Superintendencia de Banca, Seguros y AFPs", specifically Circular SBS No G 139-2009 "Gestión de la Continuidad del Negocio" (Business continuity management), which is also aligned with British Standard 25999 (BS-25999).

The business continuity management in place meets the requirements of Circular SBS No G 139-2009, which establishes that General Management and the Risk Committee should be informed of any business continuity matters that are relevant for timely decision-making on the effective attention and responses involving the bank businesses in the event of any disruption of the Bank's operations.

29 SUBSEQUENT EVENTS

For the period from December 31, 2013 to the date of this report, no significant event has occurred that may affect the financial statements.